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AN INTRODUCTION TO INDIAN GOVERNMENT AUDIT

BY

SIR FREDERIC GAUNTLETT, K.B.E., C.I.E., I.C.S.,

Auditor General in India

Second Edition

CALCUTTA
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Price fourteen annas.

Agents for the Sale of Books Published by the Superintendent of Government Printing, India, Calcutta.

IN EUROPE.

Constable & Co., 10, Orange Street, Leicester Square, London, W.C.

Kegan Paul, Trench, Trübner & Co., 68-74, Carter Lane, E.C., and 39, New Oxford Street, London, W.C.

Bernard Quaritch, 11, Grafton Street, New Bond Street, London, W.

P. S. King & Sons, 2 & 4, Great Smith Street, Westminster, London, S.W.

H. S. King & Co., 65, Cornhill, E.C., and 9, Pall Mall, London, W.

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Friedländer and Sohn, Berlin.

IN INDIA AND CEYLON.

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Newman & Co., Ltd., Calcutta.

R. Cambray & Co., Calcutta.

S. K. Lahiri & Co., Calcutta.

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The Indian School Supply Depôt, 309, Bow Bazar Street, Calcutta, and 226, Nawabpur, Dacca.

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INTRODUCTION TO THE SECOND EDITION.

THIS volume has been thoroughly revised so as to embody all the changes in the rules relating to audit, the rule defining the financial powers of the Government of India and local Governments, rules relating to pay, leave and pension, etc., which have been brought about by the introduction of the Reforms, and the consequent changes in the Government of India Act and the Statutory rules issued under the Act. The primary object with which the volume was originally issued has been kept in view, and all the changes which have taken place since the issue of that volume, have been explained in a general manner so as to present a broad view of the whole situation.

My thanks are due to Rao Bahadur K. Balarama Iyer for the revision of the chapters relating to railway audit and audit of stores accounts, and to Mr. J. C. Mitra for the revision of the chapter on Posts and Telegraph audit.

M. F. GAUNTLETT.

The 25th May 1922.

INTRODUCTION TO THE FIRST EDITION.

THE primary object of this volume is to give probationers in the Indian Finance Department some idea of the principles underlying Government audit in India, and a summary of the more important rules to be applied in such audit.

It is hoped, however, that it may have a wider sphere of usefulness. The exposition of principle may be of value to senior audit officers as well as to probationers.

The volume may also be of some use to officers of other departments, especially to those who, as controlling officers, constitute an important link in the system of audit.

As a consequence of the primary object of the volume no attempt has been made to include in it any account of the system of work followed, or of the special rules applied, in military audit offices. But, generally speaking, that system of work is based on the principles described herein, and thus this volume may also be of some assistance to officers of the Military Accounts Department.

In regard to several matters the present volume deals with a transitional period. Thus the principles according to which re-delegation may be permitted, the resolution which will bring together all the financial powers of local Governments and the revision of the leave rules are all still unsettled. It is thought desirable, however, to issue the volume now for two reasons. Firstly, the need for it is deemed to be urgent, and secondly, it is felt that there can be no finality in such matters, and that by the time these questions are decided others will in turn be under consideration. Moreover a pioneer volume such as this will probably require revision at

a comparatively early date, and, when the questions above mentioned have been decided, it may be found desirable to issue a new edition in which any defects found in this edition can be rectified.

I desire to express my indebtedness to Mr. Dicksee's "Treatise on Auditing" and for the assistance which I have received from Mr. Pritchard in the description of the existing system of audit of receipts and of the verification of the original record, from Messrs. Scott O'Connor and Avery in connection with railway audit, from Messrs. Levett Yeats and Rajagopalan regarding post and telegraph audit and from Mr. Rajagopala Ayyar in the chapter dealing with expenditure on works.

I also acknowledge the close scrutiny to which the Financial Member, the Hon'ble Sir William Meyer, and the Secretary to the Government of India in the Finance Department, the Hon'ble Mr. J. B. Brunyate, have subjected every portion of the volume, and their valuable criticisms which have led to the improvement of many of the more important sections.

M. F. GAUNTLETT.

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An Introduction to Indian Government Audit.

PART I.

A general sketch of the purpose and system of audit.

Chapter 1.

The purpose of audit.

1. Before discussing the principles of that particular branch of audit with which it is proposed to deal, it is necessary to ascertain what is meant generally by the term "Audit." An excellent explanation can be given by quoting the following portions of a translation of Sir Walter Henley's "Tretyce off Husbandry," a work which dates back to the thirteenth century*:— The purpose of audit.

"Buy and sell in season through the inspection of a true man or two who can witness the business, for often it happens that those who render accounts increase the purchases and diminish the sales. Have an inspection of account, or cause it to be made by some one in whom you can trust, once a year, and (have a) final account at the end of the year. If there is any (money), let it be raised and taken from the hands of the servants . . . . . . If arrears appear in the final account, let them be speedily raised . . . . Look into your affairs often, and cause them to be reviewed, for those who serve you will thereby avoid the more to do wrong, and will take pains to do better. In the first place he who renders accounts ought to swear that he will render a lawful account and faithfully account for what he has received of the goods of his lord, and that he will put nothing in this roll save what he has to his knowledge spent lawfully, and to his lord's profit . . . And then, if he has rendered account before, see how it compares; and if he is found in arrears of money, corn, or

* I am indebted to Dicksee's "Treatise on Auditing" for this quotation.

stock, put the whole in stated money valuation, and charge it at the commencement of his roll . . . . . . At the end of the year, when all the accounts shall have been rendered of the lands, the issues, and all expenses of the manor, take to yourself all the rolls, and by one or two of the most intimate and faithful men you have, make very careful comparison with the rolls of the accounts rendered, and of the rolls of the estimate of corn and stock and according as they agree you shall see the industry or negligence of your servants and bailiffs."

"The lord of the manor ought to command and ordain that the accounts be heard every year, not in one place but on all the manors, for so can one quickly know every thing and understand the profit and loss. . . . . The auditors ought to be faithful and prudent, knowing their business, and all the points and articles of the account in rents, outlays and returns of stock. And the accounts ought to be heard at each manor to know the profit and loss, and then can the auditors take inquest of the doings which are doubtful, and hear the plaints of each plaintiff and make the fines. The steward ought to be joined with the auditors, not as head or companion of the account, but as subordinate, for he must answer to the auditors on the account for his doings just as another. It is not necessary so to speak to the auditors about making audits, for they ought to be so prudent, and so faithful, and so knowing in their business, that they have no need of others' teaching about things connected with the accounts."

2. Special attention is invited to the clause which says that the lord of the manor ought to command that the accounts be *heard* every year. This shows that the word auditor is derived from the Latin "auditor," the ancient practice being that the parties whose accounts were audited should attend before the auditor and vouch them orally. The practice was perhaps necessary in bygone days when few people could read or write. It is possible even that the auditor himself could not read but heard the accounts read out by the clerks. The men responsible for the accounts vouched for the accuracy of the entries, and the auditor being specially chosen for his prudence, faithfulness and knowledge of the business, was able to satisfy the lord of

the manor that the accounts rendered accurately portrayed the exact state of affairs.

3. Thus in commercial audit at the present day the main object is to present before the proprietor or proprietors of the business an accurate statement of the state of affairs together with a profit and loss account showing how this position has been arrived at. In the case of Companies the duty of an auditor is mainly in the interests of the shareholders, who are practically sleeping partners in the business. The directors are the active partners, and the auditor, on behalf of the sleeping partners—the shareholders—has to examine the accounts and the balance sheets prepared by the directors and to report to the shareholders whether in his opinion those accounts are correct and fully and fairly disclose the position of affairs, or in what respects they fail to do so. In commercial audit, strictly speaking, it is never the duty of the auditor to prepare accounts, but to check the accounts which have been prepared: when auditing small concerns, however, he often finds them so badly prepared as to render it necessary for him to build up a very large portion of the fabric of the accounts from the initial records. Purpose of commercial audit.

4. Before leaving this introduction to the subject, attention may be drawn to the way in which the principles enunciated 700 years ago in this extract still apply, as will be shown in this manual. Prompt payment of money into the treasury, the strict following up of arrears, the necessity for accounts accurately portraying the facts, the value of local inspection, periodical stock verification and the check of stock with accounts were fundamental principles then as they are to-day. Principles which have held good for so long a period must contain the essence of importance.

Chapter 2.

The difference between Commercial and Indian Government audit.

The procedure in commercial audit.

5. On pages 3 to 5 of Dicksee's Auditing will be found a set of instructions to commercial auditors: some of those instructions are not applicable in Government audit, but it may be well to glance briefly at them and then to indicate the modifications necessary to make them applicable to Government audit in India, and the causes for such modifications.

"(1) In commencing a new audit you should obtain a list of all the books kept, and of all persons authorised to receive or pay money and order goods."

"(2) In the case of a joint stock company, examine the articles and board minutes respecting the receipt and payment of money, and the drawing of cheques, acceptances, etc."

"(3) Ascertain and take note of the general system upon which the books are constructed."

"(4) Report if the accounts and vouchers have been submitted to the board of directors by an account committee or otherwise, and whether they have been systematically checked and certified; and note any discrepancies."

"(5) Examine all the items in the cash book with the bank pass books and vouchers."

"(6) Note any unusual or extraordinary payments or receipts."

"(7) In regard to the payments for wages and petty cash, note any unusual items, and see that vouchers for all payments are kept and produced."

"(8) Report whether the cash book is regularly and punctually posted and balanced, and if the balance is checked."

"(9) Report also if the entries in the fair cash book are in arrear on account of the current year; and, if so, to what extent, and why."

"(10) In all cases where branch establishments are included in one business you will be careful to examine into the mode of bringing the returns of work, accounts and expenses to the head office."

"(11) Examine that the invoices are properly checked as to quantity and prices; obtain a declaration or otherwise satisfy yourself that every liability of the year is brought into account."

"(12) Check the postings; and, although you are not held responsible for the details of classification, it is desirable you should make any suggestions required, and note any discrepancies, especially in relation to the division of expenditure on account of Capital and Profit and Loss Accounts respectively."

"(13) In the accounts of stock-taking see that all stock sheets and returns are duly signed by the heads of departments, and that the same are correctly carried forward to the General Stock Account: and ascertain and note whether goods finished or in progress are taken at cost price or otherwise; also report whether in large concerns an independent check clerk or valuer has verified the stock returns in regard to prices and quantities."

"(14) In checking the Profit and Loss Account note whether the usual and proper deductions are made for wear and tear and depreciation, and for recouping of capital on works or premises held on short leases."

"(15) Take care that in the Balance Sheet no additions are made to expenditure on Capital Account, except such as are duly authorised by the Board of Directors, and note the distinction between new works and mere replacements."

"(16) Ascertain the correctness of the cash balance, bills, and other securities in hand, and take note of every exceptional transaction."

6. The procedure in commercial audit can be summarised briefly thus:—

The first step is to ascertain the authorities competent to sanction expenditure, to receive or pay money or to incur liabilities, on behalf of the firm.

The second is to understand the system of accounts followed.

The third is to check as far as possible the accuracy of the original record, *i.e.*, the cash book.

The fourth is to see that all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authorities.

The fifth is to investigate unusual items.

The sixth is to check the compilation of the accounts from the original record and to suggest corrections in the classification of transactions.

The seventh is to review the procedure of stock-taking and of pricing the goods on hand.

The eighth is to check or prepare the financial results, *i.e.*, the Profit and Loss Account and the Balance Sheet, which will indicate accurately the position of affairs. This necessitates also the investigation of depreciation of property (buildings, machinery, furniture, etc.), the soundness of investments, debts due to the firm, and of the correct allocation of expenditure to Capital Account.

Difference between a Government and a commercial firm necessitating differences in audit procedure.

7. Government accounting, and in consequence Government audit, are not concerned primarily with the preparation of a balance sheet, although there are certain branches of Government activities which are of a commercial nature. The form of Government accounts has to be determined by the fact that the main function of Government is to govern. The activities of a good Government in any country vary according to the needs of the country, and the first step is to determine the main branches of expenditure which the Government of any country has to incur. Once those branches have been determined the major heads of account naturally follow.

The next point is for Government and the legislature to decide as to the amount of expenditure which will be incurred during any year in carrying out those activities and then to determine how to raise sufficient money to meet that expenditure. Money can be obtained either in the form of revenue or by loans. The purposes for which loans may be

raised by provincial Governments are defined in the rules framed under Section 30 (*1a*) of the Government of India Act, *viz.*, the Local Government (Borrowing) Rules.

8. Thus the audit of Government accounts in India includes :—

(1) the check of the realisation of revenue against the demand according to the laws and regulations prescribed for the purpose, and

(2) the check of expenditure against the amounts set apart each year for that purpose and against the orders of authorities competent to permit such expenditure. Audit has also to see that the expenditure is correctly allocated to the revenue or capital heads of account in accordance with the rules prescribed with regard to such allocation.

9. Unlike commercial audit, the audit of the transactions of the Government of India is entrusted entirely to Government officials and this difference has influenced largely the system of audit adopted. As will be explained in Chapter 3 the audit of receipts is left almost entirely to the departments responsible for the collection of revenue. The audit of expenditure is, however, performed mainly by separate departments independent of the spending departments. These auditing agencies are the Indian Audit Department and the Military Accounts Department which are also responsible for the compilation of the accounts which they audit. The whole of the work of auditing the expenditure is not, however, entrusted to these independent departments, but, as explained in paragraph 10, part of this work is also performed by the spending departments.

10. India is so vast a country and Government activities are so various that it is impossible for independent Audit Officers, working as they do, almost entirely at headquarters, to be as closely in touch with the facts to which the accounts refer as the officers of the department in which the expenditure is incurred.

Thus, the Audit Officer has no personal knowledge of the quantity or quality of the work done by a contractor, the quantity or quality of goods supplied by a supplier, or of the number of coolies employe d each day on a work. The

payments are in many cases made at treasuries the officers in charge of which are not members of the Audit Departments; while in others the bills are either presented to or are prepared by, disbursing officers of certain departments. Thus the preliminary examination or audit of bills which are paid at treasuries or by disbursing officers of certain departments is primarily left to the officers of other than Audit Departments. The exact nature of work done by these agencies will be discussed later when we attempt to deal with the details. For the present it is sufficient to remember that under the Government system of audit the executive officers of the spending departments as well as officers in charge of treasuries take an important share in the scrutiny of expenditure.

11. Another point of difference between commercial and Government audit is that, whereas the former is nearly always periodical, the latter is continuous. This is due to the greater volume of work to be done and to the fact that a large part of it is concerned with personal claims which have to be finally adjusted with the utmost promptitude.

12. It is obvious that these differences in conditions must alter in details the system of audit, and it is interesting to compare with the main factors of commercial audit set out in paragraph 6 above, the main objects of Government audit set out in Articles 130, 137 and 138 of the Audit Code reproduced below:—

"130. The main objects of audit of expenditure are to ensure—

(a) that the expenditure has been incurred by an officer competent to incur it,

(b) that the expenditure has received the sanction, either special or general, of the authority competent to sanction it,

(c) that, if it is votable expenditure, it is covered by an appopriation from a grant sanctioned by the legislature, by reappropriation within such a grant, or by a supplementary grant sanctioned by the legislature.

(*d*) that, if it is non-votable expenditure, there is provision of funds, sanctioned by competent authority, to cover it,

(*e*) that the expenditure does not involve a breach of any of the canons of financial propriety laid down in Rule 10 of the Auditor General's Rules,

(*f*) that payment has, as a fact, been made, and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible, and

(*g*) that the charge is correctly classified, and that, (as in the case of Public Works and Forest accounts) if a charge is debitable to the personal account of a contractor, employee or other individual or is recoverable from him under any rule or order, it is recorded as such in a prescribed account."

"137. Audit of receipts is of a simple character, it being sufficient to see that all sums receivable are duly paid to the proper officer and brought to credit by him. ... ..."

"138. Audit of stores comprises not only an examination of the quantity accounts of the receipts, issues and balances of the stores, but also the scrutiny of the accounts of values with a view to ascertain that they tally, in all respects, with the expenditure and other transactions of the public account connected with the stores, and *vice versâ*. With this object, two points will always require special attention,—(1) that the stores are priced with reasonable accuracy, and that the rates are reviewed from time to time and revised when necessary, and (2) that the stocks are counted and otherwise examined periodically, to ensure that the balances on hand represent the quantities as well as the values borne on the account books."

13. This comparison is made in detail below :—

(*a*) *The first and fourth steps of commercial audit, i.e., ascertaining the authorities competent to sanction expenditure or to receive or pay money, etc., and to see that the transactions are in accordance with the minutes or orders.*

These correspond to clauses (*a*) to (*d*) of Article 130 of the Audit Code. In Government accounts the minutes and orders are represented by the Government of India Act, the Audit Resolutions, the authorised codes, and the resolutions and orders of the Central Government, local Governments and other authorities. The volume of such orders is immense and this portion of audit looms so large that it tends to overshadow all the other branches.

(*b*) *Second step of commercial audit, i.e., understanding the system of account followed.*

It is unnecessary to put this forward as a main object of Government audit, because in India the form in which the initial accounts should be kept and that in which the accounts should be rendered to the Audit Department are determined by the agency which audits them and, after a certain point, also compiles them. The system of accounts followed is described in the relevant account codes.

(*c*) *Third step of commercial audit, i.e., check of the accuracy of the original record.*

Clause (*f*) of Article 130 of the Audit Code may be held to correspond to this. It must be remembered, however, that the cash book maintained in the treasuries or by departmental officers, which is the basis of Government accounts, is not submitted to the Audit office. Consequently the original record which is checked in the Audit office is not the cash book but the monthly accounts compiled from it. The accuracy of this compilation is ensured first by its constituting a balanced account starting from an opening and ending with a closing balance which itself is verified by some responsible officer of Government, and secondly, by the fact that it is checked with the original vouchers from which the entries in the cash book have been made. In some cases, as in the Public Works Department, the accuracy of the entries in the cash book is checked completely by a Divisional Accountant attached to each Divisional office as a representative of the Audit Department.

(*d*) *Fifth step of commercial audit, i.e, investigation of unusual items.*

The corresponding phase of Indian Government audit is the audit against the canons of financial propriety which is enjoined by Rule 10 of the Auditor General's Rules. These canons are set out in Chapter 10 below.

(*e*) *Sixth step of commercial audit, i.e., checking of the compilation of accounts and of the classification of transactions.*

Checking of the compilation of accounts is not specifically mentioned in the list of objects of Government audit. As stated in clause (*b*) of this paragraph the accounts are, after a certain point, built up by the auditing agency itself and the preliminary accounts are checked in the Audit office as explained in clause (*c*).

In commercial audit the auditor is not seriously concerned with the details of classification, but in Government audit the classification is in most cases, made by the auditor himself or in other cases, checked by him in detail. Again in the case of departments like the Public Works Department the accounts are compiled by Divisional Accountants. The treasury accounts are compiled in the Audit office except in Madras where the classified abstracts are prepared by the treasuries and submitted to the Audit office The building up of the accounts is carried through the Classified Abstracts, the Detail Books, the Consolidated Abstract, the Journal and Ledger, and ends in the Audit offices in the preparation of the monthly and annual accounts, submitted by each Audit Officer to the Controller of the Currency and the Auditor General respectively. The work of compilation in the Audit office is test-checked by the Deputy Auditors General at their periodical inspections.

Thus the Government of India is in a very strong position as regards the accuracy of accounts and the classification of transactions. It is able to say that its accounts are built up by the agency which audited the initial records.

(*f*) *Seventh step of commercial audit, i.e., checking the accuracy of the accounts of stores or goods.*

This corresponds to Article 138 of the Audit Code. In cases in which the Governor General in Council has required

the Auditor General to arrange for the audit of stores accounts, the Audit Departments have to scrutinise the accounts of quantities and values and to see that the balances on hand have been verified by some responsible official and correctly priced. The Audit Officers are also required to arrange for a verification of the balances by a representative of the Audit Department in some of the more important stores depôts.

(*g*) *Eighth step of the commercial audit, i.e., the preparation of the Profit and Loss account and the Balance sheet.*

In the ordinary accounts of Government there is nothing to compare with these accounts which form the summary of the financial transactions of a commercial firm during a certain period. Its place may be said to be taken by the annual Budget Statements and by the Finance and Revenue Accounts of the Government of India which are compiled by the Auditor General for presentation by the Secretary of State to the Houses of Parliament. However, in the case of Government undertakings of a *quasi*-commercial character, the financial results are ascertained and reviewed outside the regular accounts through *pro formâ* accounts which are prepared separately for the purpose, and it is intended that these *pro formâ* accounts should be prepared on a strictly commercial basis.

14. Mr. Dicksee in his work on Auditing states that the objects of audit may be said to be threefold :—

(1) detection of fraud ;

(2) detection of technical errors ;

(3) detection of errors of principle.

Here again due allowance has to be made for the differences in conditions between the Indian Government and a commercial firm and the differences between the agencies which prepare and audit the accounts in the two cases. Thus in Government audit there is little scope for detection of errors of principle (*i.e.*, in the system of accounts adopted) as the responsibility for determining or advising as to the form in which accounts should be kept devolves upon the

Auditor General. The other two objects are, however, sufficiently provided for under the Government system as explained below.

As regards the detection of fraud, it must be remembered that as explained in paragraph 10, part of the work in connection with the scrutiny of expenditure, is entrusted, for the sake of convenience and economy, to the officers of the spending departments. A fraud in respect of expenditure would in some cases indicate a payment which the payee is not legally entitled to, or in others a payment made in respect of a claim which is not in accordance with the facts. Under the existing arrangements the certification as to the initial facts is left to the executive officers as the Audit Officer has no opportunities of verifying them through his own representatives. Most of the frauds are thus checked or detected in the course of the scrutiny of the executive officers. The Audit Officers also render valuable assistance in indicating directly or indirectly to the executive officers defects or irregularities which require their attention. This subject will be discussed in detail in Chapter 4, and it will suffice to state here that the checks prescribed for executive officers supplemented by occasional local audit and continuous central audit sufficiently provide for the detection of fraud in the Government system of audit. As to the detection of technical errors, the bulk of the work of the Audit offices has fallen under this category and it is one of the chief complaints against the Audit Department that this has been their main work.

It is apparent that this is not altogether a fair criticism inasmuch as it overlooks the following facts:—

(*a*) The officers of the Department have moulded and still mould the form of the accounts and thus prevent errors of principle.

(*b*) Wherever they have started work in a fresh field, as in Local Fund audit, their pioneer work has been very valuable.

(*c*) Their indirect work in the prevention and detection of fraud is important.

(*d*) The enormous number of objections raised is due to—

(*i*) the extreme elaboration of the rules to be applied in audit;

(*ii*) the mistakes made in the preparation of bills;

(*iii*) lack of intelligence or undue rigidity on the part of the auditor.

It is most important that officers of the Department should prevent cause (*iii*) coming into operation, but critics ought not to forget, as they sometimes do, that the officers of the Department are not responsible for cause (*ii*), while the ultimate responsibility for cause (*i*) rests with Government even though they may have sought the advice of officers of the Audit Departments in framing the rules.

It is hoped, with the higher responsibility and the greater initiative that Audit is expected to take under the new Constitutional Reforms, that Audit Officers will devote more attention to the broad principles of legitimate public finance and to looking into the manner in which the various executive officers are undertaking their more important financial responsibilities.

Chapter 3.

The Audit of Receipts.

15. It has already been stated in paragraph 9 that the audit of the receipts of revenue is performed mainly by the revenue authorities concerned. The Auditor General arranges for this class of audit only in cases in which he is so required by the Governor General in Council. Under the existing arrangements the Civil Audit offices perform this duty in a small number of cases. The audit of railway earnings, however, forms an important part of the duty of a Railway Audit office and this check will be dealt with in some detail in Chapter 21.

16. All audit of receipts divides itself into the two functions of (*a*) seeing that all sums due are received or checked against demand, and (*b*) seeing that all sums received are brought to credit in the accounts.

17. A public "demand" arises in India in two ways. **Demands.** Either it is (*i*) a specific demand, fixed or fluctuating, for a contribution to the State Exchequer, such as land revenue and excise—all taxation is of this nature—or (*ii*) it is a demand which arises in consequence of some outgoing of Government property (stock) or Government cash or Government service, in which case it is a claim for a "*quid pro quo.*" Of this nature are demands set up by the sale of Government lands, stamps, forest produce, etc.; by Government cash advances and remittances; and by Government services, such as state railways, telegraphs, etc. The check against (*i*), the specific demand, is always exercised in one way: the demand, if fixed, is entered in a register and the receipts or satisfactions of it are checked and entered against it: if fluctuating (as in the case of excise and customs duties, etc.), a Government staff is employed to watch the operations on which the demand depends and to collect the dues. In India this check is left entirely to the revenue collecting authorities: Audit shares in it only infinitesimally under such heads as tributes, interest, contributions, loans, fund subscriptions, etc. Where the demand arises in consequence

of (*ii*) some outgoing of Government property (stock), Audit can only operate if it receives returns of the property, such as the monthly returns of stamps and opium sent by the treasuries to the Audit office. The check then consists in seeing that for every reduction of stock in the return there is an equivalent cash credit in the accounts.

18. Where the demand arises in consequence of some outgoing of Government cash, as in the case of advances and remittances, Audit exercises a direct and complete check entering the outgoing in a register and watching and recording the receipt against it.

Where the demand is occasioned by some outgoing of Government service, as in the case of state railways and telegraphs, the dues are collected by the Government staff working the service and their collection is generally checked by Audit to some extent.

There is a third class of receipts which occurs without reference to demands, or, as it were, casually. Of this nature are deposits (such as those in the Post Office Savings Bank) and payments to Government for money orders. These are repayable; Government acts in regard to them as a banker or remitter; they are not Government dues, and Audit can exercise no function as to their receipt. It does, however, check each repayment against the original receipt.

19. To sum up, the foregoing analysis indicates that Audit plays an extremely limited (though, so far as it goes, important) part in ensuring that the Government receives the sums of money due to it, that is in protecting Government against fraudulent or inadvertent omissions to realise its enormous cash dues. This task in the main, however, is left to the revenue collecting authorities.

Credit in accounts.

20. The second function of audit in regard to receipts is to see that all sums received on behalf of Government are brought to credit in the accounts. The sums due to Government are either paid by the persons concerned direct into the treasury or paid to a Government servant who is required to receive the same and remit them to the treasury. In the latter case, it is left to the revenue authorities concerned to see that sums received by the members of their departments

are paid into the treasury. The task of the Audit Department then resolves itself into seeing that all sums of money paid into the Government treasuries are credited by the treasury staff in their accounts. The first or main safeguard to this end, that is, against error or fraud on the part of the treasury staff, is the printed receipts which have to be given for all payments into a treasury. If audit could collect all these receipts it would possess an almost perfect check over the credits in the treasury accounts. But this course is not feasible; the receipts are required by the payers as proof of their payments and to protect them against a second demand. In general they remain in the back-ground as a moral safeguard and only operate actively when some inquiry arises, of the repayment of something in the nature of a deposit is required. To establish a more immediate connection between payments and credits, audit sends all the large civil revenue paying departments (such as Land Revenue, Stamps, Excise, etc.) monthly returns of treasury credits. These they compare with their own records, and differences brought to notice are settled. The great non-civil departments (Public Works, Railways, Posts and Telegraphs, etc.), and the Forest Department send the Audit office information as to their payments into the treasuries which it compares with the treasury credits; courts of law send returns of fines paid into the treasury, etc., etc. to the Audit office. In this way a very large proportion of the credits in the treasury accounts are verified without much delay, and errors or frauds on the part of the revenue treasury staff are *pro tanto* prevented and corrected. This is a most important and valuable function of Audit.*

* No attempt is made in this volume to discuss the details of work in the Military Account offices (see paragraph 133 below). But almost all the remarks of a general nature to be found herein are equally applicable to such work.

Chapter 4.

The Verification of the Original Records.

21. It is the duty of Audit to certify that the accounts represent the actual state of affairs. It has already been explained how it is possible for Audit to certify that, throughout the whole system, the accounts are accurately built up from the initial records. It is obvious, however, that unless the initial record represents facts, the accuracy of the subsequent work performed on the basis of that record is of no avail. It is most important, then, to see how far Audit is able to ascertain the accuracy of the initial record.

Vouchers.

22. Every Government payment is made on a document called a voucher (or an acquittance) which gives the amount, nature, and period of the payment and all other details necessary for its complete identification; and contains a receipt of acknowledgment or acquittance by the person to whom the payment is due. This system, whereby the payer obtains documentary evidence from the payee in proof of the payments made by him, is universal in both public and commercial accounts. From the point of view of the payer the document is called a voucher or acquittance; from that of the payee a receipt. It is the duty of Audit to enforce this system, that is, to see that for every payment there is a voucher in proper form, properly drawn up, arithmetically correct, and receipted by the proper person. In the case of payments made by bills drawn on treasuries, the preliminary check in this direction is made at the treasuries and the vouchers are then submitted for final audit to the Audit office.

What they represent.

23. The Public Works or Railway Engineer counts coolies and records their numbers; he measures construction work and enters the figure in a note-book: the Civil or Military Officer musters and enumerates the establishments, corps, etc., he has under him, and prepares and signs a pay bill for them; he signs or countersigns a travelling allowance bill for himself and others founded on special or general

knowledge that the journeys claimed have actually been performed; he submits a claim for contingencies or supplies after seeing personally (or through others) that the articles charged for are required for the public service and have actually been purchased and brought into public use: the Collector counts cash or stamps or opium in his treasury and thus proves his accounts for the month, etc., etc. At these points the accounts spring direct from the facts; at these points they obtain whatever vitality and reality they possess; their accordance with the facts, through all their subsequent changes of form, depends on their truth at these points. Generally speaking, in India, Audit does not come in here at all; the executive and administrative disbursing officers alone verify the initial record with fact; the accordance of the initial record with fact is finally accepted by Audit on their statement and responsibility.

Receipts and certificates.

24. What Audit does in all these cases is to obtain receipts from the payees, certificates from the disbursing officers and the countersignature of controlling officers. Thus for construction it obtains receipts from the contractors and others to whom large payments are made (no receipts from individual labourers); certificates of measurements of work done, of counting of labourers and of receiving supplies and of completion of work from the disbursing officers and, in the case of works for which contracts are entered into, the rates agreed upon by authorities sanctioning the contracts. For contingencies, receipts are obtained, for the larger payments, from the private payees, and certificates from the disbursing officers that the payments were necessary for the public service and have actually been made: also, in some cases, the disbursers' certificates are re-inforced by countersignature of the bills by superior officers. For pay, receipts are obtained from gazetted officers, and for non-gazetted officers certificates (from heads of offices) that they have actually been present on duty, and that previous pay has been paid to them and their receipts recorded. For leave and pension payments, receipts only are necessary: for travelling allowances, receipts (not from non-gazetted officers), technical certificates and countersignature, etc., etc.

25. The contact of the Audit office with the facts is, therefore, through receipts and certificates, re-inforced in some cases by countersignature. It has no opportunity of seeing the facts with its own eyes and comparing the bills with them. The question therefore arises how far receipts and certificates guarantee the facts. It may be said at once that while they are much better than nothing, they cannot guarantee the facts with absolute accuracy.

Possibility of verification by Audit office.

26. It must be admitted, however, that it would be impossible for Audit to verify the initial facts unless a representative of that Department were present at every act vouched for by the certificates referred to in paragraph 24 above. Those acts include the payment of the pay and allowances of, and the journeys performed by, every Government servant, the measurement of all work done by and for the Public Works Department, and the verification of Government stores of all description, using the word "stores" in its widest sense to include coin, stamps and other valuables. It is obvious, then, that the Audit Department could not verify the initial facts without a very much larger establishment and the extra expenditure thereby involved would probably be very disproportionate to the advantages obtained.

Part played by countersigning and controlling officers.

27. The recognition of this fact has led to the check exercised by Audit being supplemented to a large extent by executive check. Work done and paid for in the Public Works Department is inspected by superior officers of the Public Works Department, travelling allowance bills are checked by countersigning authorities who are in a position to have knowledge of journeys performed, bills for important contingent expenditure are countersigned by controlling officers who can verify and judge the necessity for such expenditure and the proper rates as regards pay, and who can satisfy themselves at inspection that the materials billed for have been purchased.

28. Because this work is not done in the Indian Audit Department there is a tendency in the Department to overlook its importance and to consider that it would be better done if it were undertaken by the officers of the Department.

But although the latter have the technical training in checking accounts, executive officers have an intimate knowledge of the details of the work done and are in a better position to verify the facts and to check the economy of the expenditure passed by them than outside officials would be. But it is the duty of Audit Officers to scrutinise the manner in which the executive officers discharge their financial responsibilities.

29. It has already been pointed out that commercial audit regards the detection of fraud as one of its main duties. But such detection is almost impossible except at the verification of the initial record, so that detection in the Audit office in India is very rare. And yet it must not be hastily assumed that this indicates a defect in the system of Government audit in India. The detection of fraud by an executive officer is frequently due to the letters issued by the Audit office plainly indicating that something is wrong. Thus in one case the Audit Officer pointed out that in a certain office there were frequent violations of the important rule that money should not be drawn in advance of requirements. This led the head of the office to examine his account carefully with the result that he detected frauds amounting to over Rs. 3,000. Numerous similar cases can also be quoted showing that action taken by the Audit office has led to the detection of fraud. Detection of fraud.

30. It is essential to investigate frauds carefully because valuable lessons can almost always be learnt from them. There is a tendency to suggest the framing of new rules to prevent each particular fraud. This tendency should be resisted: there are quite enough rules already and, if the preventive machinery is made too elaborate, the chances are that it will not work efficiently. The main point in every fraud investigation must be to ascertain whether the exercise of ordinary common sense, such as one ought to expect from every Government officer, and the application of existing rules, would not have rendered the fraud impossible. My own experience is that this would have been the case in nearly all the frauds which have come to my knowledge. I urge the importance of this line of investigation because fraud is prevented far more by punishing the defal- Value of investigation of frauds.

cator, and the officer whose negligence rendered the fraud possible, than by adding to the enormous number of rules already in existence.

But fraud investigation *may* sometimes indicate a defective system of check and then the revision of the system is essential.

The initial record submitted to the Audit office.

31. The main monthly records submitted by each treasury are the cash account and the lists of payments. The cash account shows lump receipts under the important heads and a detailed list of receipts which cannot find a proper place under the main heads. Many detailed schedules are also submitted.

The important feature of the cash account is the abstract which starts with the opening balance, shows the total receipts and payments and thus works up to the closing balance. The actual cash balance of the treasury and sub-treasuries are also shown in detail so that the account and the cash balance can be verified. Two lists of payments are submitted each month and are supported by schedules of the more important classes of payments. The lists of payments show the vouchers required, the vouchers forwarded, and those still to be submitted.

Similar accounts are also submitted to the Audit office direct by officers who draw money from the treasury by cheques and keep the detailed accounts of the payments made.

32. In checking this initial record the more important points to which the auditor devotes his attention are :—

(*a*) That the vouchers are in the prescribed form, and that they are duly receipted by the payees and in original, that a brief abstract is given in English under the signature of the drawing officer on all purely vernacular vouchers, and that vernacular signatures are transliterated, also that sub-vouchers contain notes of dates of payment.

(*b*) That they are numbered with reference to the number in the list of payments, schedule, Schedule Docket or other account, as the case may be.

(c) That the details work up to the totals and that the totals are in words as well as in figures.

(d) That they bear a Pay order, signed by the Treasury Officer in the case of vouchers cashed at treasuries or by the responsible disbursing officer in the case of other vouchers.

(e) That they are stamped "Paid."

(f) That there are no erasures, and that any alterations in the totals are attested by the officer concerned as many times as they are made.

(g) That stamps are affixed to all vouchers for sums in excess of Rs. 20, and that they are punched.

(h) That no payment is made on a voucher or order signed by a subordinate instead of the head of the office himself or on a voucher or order signed with a stamp, and that copies of sanctions are certified by the sanctioning officer or by a gazetted officer authorised to sign for him.

(i) In all cases in which it is prescribed that agreement should be effected between two different documents, the fact of the agreement should be noted on both the documents and initialled by the auditor who makes the agreement.

(j) That if a treasury voucher be paid by transfer, it is stamped as having been so paid, that the head to which the amount is credited is noted on it, and that the credit is traced in the cash account when possible.

(k) That Fund and Income Tax deductions have been correctly made.

(l) That no bills for any pay or allowance not claimed within six months of its becoming due have been paid without the sanction of the Accountant General.

Chapter 5.

Audit against sanction.

33. The next main feature of audit set out in paragraph 6 is the check against the orders of the authorities. In India these orders are of two forms and the check, therefore, should be sub-divided under the two classes :—

(1) Against Sanction.

(2) Against Appropriation.

This chapter deals with the former; the latter is discussed in Chapter 6.

Authority to sanction expenditure.

34. In the audit of expenditure, one of the most important functions of the Audit Department is to see that each item of expenditure has received the sanction of the authority competent to sanction it. The powers of sanction of the several authorities are laid down in the Statutory Rules and other orders issued by the Secretary of State in Council or in the orders issued by the authorities in India, and are embodied in the various audit and departmental Codes and other publications issued by the Government of India or under their authority or by the local Governments.

History prior to Reforms.

History of audit against sanction.

35. The first regulation which defined the authority for sanctioning expenditure from the revenues of India was Section 41 of the Government of India Act of 1858 (21 and 22 Vic. cap. 106), which subsequently appeared as Section 21 of the Government of India Act, 1915, before it was amended in 1916, and ran as under :—

> "The expenditure of the revenues of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council; and no grant or appropriation of any part of those revenues or of any other property coming into the possession of the Secretary of State in Council by virtue of this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council of India."

Up to 1889 the Audit Officers did not, as a rule, challenge expenditure on the ground of its requiring the sanction of the Secretary of State. In that year, at the instance of the Secretary of State, they were directed to require evidence of his authority for certain specified classes of expenditure, appointments drawing over Rs. 3,000 a year and the like, and the first Audit Resolution was prepared.

As regards the form of the Resolution, the Secretary of State admitted that, in the "numerous services in which "expenditure must be incurred for the daily requirements "of the administration," it would be impossible to comply literally with the terms of the Act. Nevertheless, he thought that his formal sanction should be given to such expenditure at some stage.

36. The Government of India explained to the Secretary of State, however, that he was suggesting a reversal of the accepted presumption in accordance with which the business of India had always been carried on. The presumption, they wrote, "has been that the Secretary of State has delegated "the authority entrusted to him over expenditure in India "to the Government of India, except in cases where he has, "by special order or by established practice, reserved to "himself the exercise of that authority; all the proceedings "of the Government of India under this delegated authority "are, of course, subject to the general control of the Secretary "of State in Council; and cases of an unusual nature "involving considerable expenditure, in regard to which no "precedents exist, are also referred for the previous sanction "of the Secretary of State in Council. In other words, the "statutory control has been understood to be general, except "in the cases where the Secretary of State has decided that "it must be special."

It was this principle, they urged, which underlay the standing instructions on the subject; and they asked the Secretary of State to maintain it, and to allow the presumption on which it was based to remain unaltered.

37. The Secretary of State accepted this view, and decided that the existing system should continue, in order that he might learn by experience whether it secured him a sufficiency of control. This was in 1889; several modifications

were subsequently made in the rules of 1889, and in 1893 they were completely revised and republished, the Secretary of State's concurrence being obtained on each occasion.

38. In 1907, however, Mr. Morley as Secretary of State for India drew the attention of the Government of India to the rules by which the expenditure of the revenues of India was then regulated. He referred to the statutory provisions and to the Audit Resolutions under the provisions of which the sanction of the Government of India is declared to be sufficient authority for expenditure in India except in specified cases in which it is stated that the approval of the Secretary of State in Council is required. He continued :—

" When these resolutions were sanctioned, it was under- " stood that this was done as a provisional measure in order " that the Secretary of State in Council might learn by ex- " perience whether the orders given are sufficient to secure " to him the power of efficient control which it was intended " by Parliament that he should exercise."

" Experience has demonstrated the necessity of revising " the resolution so as to provide explicitly that certain classes " of expenditure, which are not now mentioned in it, shall " require the previous sanction of the Secretary of State in " Council."

He then enumerated the classes and continued : " Your " suggestions should be embodied in a draft resolution (to " take the place of the one dated 4th March 1893) which " you should prepare and submit for my approval as soon as " possible. As the resolution is intended to serve not merely " as a set of rules for the guidance of audit officers but also " as an authoritative statement for other purposes of the " limits within which expenditure may be incurred, and " grants made by the Government of India without the " specific sanction of the Secretary of State in Council, it " should recite the statutory provision regarding the control " of Indian expenditure* . . . . . : it should set forth " that proposals for expenditure which are not specified as " requiring the Secretary of State's sanction are invariably to " be submitted to him when they raise any important

* *i.e.*, that mentioned in paragraph 35 above.

"question of administrative policy and when the expendi- "ture contemplated is of an unusual nature, or is likely to "involve further expenditure at a later date."

39. When submitting the draft resolution thus called for, the Government of India raised two main points. They said: "We do not read in your present despatch any intention of "altering the position accepted by Lord Cross in his des- "patch No. 250-Financial, dated the 7th November 1889, "that the authority vested in the Secretary of State has been "delegated to the Government of India except in cases "where he has by special order or by established practice "reserved to himself the exercise of that authority. We "have, therefore, defined this position in paragraph 2 of the "draft resolution. In paragraph 3 of the draft we make it "clear that all measures which raise any important question "of administrative or financial policy, or involve considerable "expenditure of an unusual nature, must be submitted for "the orders of the Secretary of State. This general limitation "on our Financial powers has been embodied in the prelimi- "nary portion of the resolution, dealing with the powers "which govern the discretion of the administrative, rather "than in that part which describes the duty of the audit "officer. This arrangement follows what is virtually the "existing practice."

40. The Secretary of State accepted the views of the Government of India except in respect of expenditure of an unusual nature which he considered should come within the purview of Audit. Since then there have been numerous revisions of what is called the Audit Resolution and the last edition prior to the introduction of the Reforms (known as the Main Audit Resolution) was issued in March 1913.

In each edition the scope of the resolution has been enlarged and the rules contained in it have been brought more closely into accord with the original orders of the Secretary of State of which the resolution is a convenient compendium.

41. It is unnecessary to describe in detail the history of the growth of the powers granted to local Governments. It is sufficient to note that an important resolution issued in 1897 defining those powers. Since then, as a result largely

Delegation to local Governments and subordinate authorities.

of the work of the Decentralisation Commission, their powers were increased considerably and a new resolution defining the powers of sanction of local Governments in respect of Provincial and Imperial expenditure was issued in July 1916. This was known as the Provincial Audit Resolution.

History of Delegations.

42. The statutory rule quoted at the beginning of paragraph 35 required that all expenditure in India should be sanctioned by the Secretary of State in Council. As this rule did not make it clear that the Secretary of State could delegate his powers to the authorities in India, the following proviso was added to that Section in 1916:—

> Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State in Council with the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of a majority of such votes.

The addition made the position clear and it specifically gave power to the Secretary of State in Council to delegate his powers to any authorities he liked.

Even under the then existing orders it was found that the position as regards delegation was very complicated. The Secretary of State held that the powers exercised by the Government of India were merely delegated by him, and that the Government of India, or the local Governments could not delegate to subordinate authorities powers entrusted to themselves without the sanction of the Secretary of State. It was therefore necessary to examine the whole question in detail and with the approval of the Secretary of State a set of fundamental rules were issued in 1917 clearly defining not the actual powers to be exercised in each case but the maximum limits up to which powers may be delegated to subordinate authorities without reference to the Secretary of State.

43. The resolutions defining the powers delegated by the Secretary of State to the Government of India and to the local Governments, and the rules defining the extent to which the delegated powers could be redelegated to the subordinate authorities were revised up to 1st June 1918 and published in a volume called the "Book of Financial Powers."

Relevant features of the Reforms Scheme.

44. Thus before the advent of the Reforms the expenditure of the revenues of India was entirely under the control of the Secretary of State who delegated his powers, to a certain extent, to the authorities in India. This position has since been changed under the Reforms. The final goal of the Reforms is the progressive realisation of responsible Government in India as an integral part of the British Empire. The means to be adopted for the attainment of this goal are the gradual development of self-governing institutions in India and the grant to the provinces of the largest measures of independence of the Government of India which is compatible with the due discharge by the latter of its own responsibilities. This has been provided for in the following ways :— Position under the new Act.

"(1) In Governors' provinces, the functions of the local Governments have been distinguished from those of the Governor-General in Council by the division of the subjects which are placed under their respective administrative control. Those subjects which will remain under the administration of the Government of India are called 'Central' subjects while those which have been placed under the control of the local Governments are called 'Provincial' subjects. The local Governments will frame their own budgets which will be passed by their respective Legislative Councils. The Councils of such provinces consist of a large elected majority.

(2) The provincial subjects have been further divided into (1) Transferred and (2) Reserved. The former includes those subjects which it is thought can be entrusted to popular control and have been placed under the charge of a Minister appointed from the elected members of the Legislative Council. The latter class includes subjects which have not been so transferred and are placed under the charge of a Member of the Executive Council.

(3) A complete list of the subjects classified as central, provincial reserved and provincial transferred is given in Schedules I and II to the Devolution Rules. The following may be cited as examples :—

Central	Army. Railways. Posts and Telegraphs. Political charges. Commerce. Customs.
Provincial Reserved .	Water supplies, irrigation and canals, drainage and embankments, water storage and water power. Land Revenue Administration. Famine Relief, Land acquisition, Administration of Justice, etc.
Provincial Transferred .	Local self-Government. Medical administration. Education other than European and Anglo-Indian Education. Public Health. Excise. Development of Industries.

(4) Local Governments are given powers to borrow in the open market for their own purposes subject to certain restrictions, while the local Legislative Councils are empowered to pass laws imposing fresh taxes of certain specified kinds.

(5) The powers of sanction of local Governments have been very largely increased either by rules made under the Act which have received the approval of both Houses of Parliament or by executive orders of the Secretary of State."

With regard to what are known as "Central subjects" *i.e.*, subjects under the control of the Government of India, the powers of the Government of India have been considerably enhanced by the Secretary of State under the powers vested in him under Section 21 of the Act.

Financial rules framed under the Act.

Powers of sanction. The new Provincial Audit Resolutions.

45. Section 19A of the Government of India Act provides that the Secretary of State in Council may by rule regulate and restrict the exercise of the powers of superintendence, direction and control vested in him by the Act; and Section 45A (3) also provides that the powers of superintendence, direction and control over local Governments vested in the Governor General in Council shall, in relation to transferred subjects, be exercised only for the following purposes :—

(1) to safeguard the administration of central subjects;

(2) to decide questions arising between two provinces, in cases where the provinces concerned fail to arrive at an agreement; and

(3) to safeguard the due exercise and performance of any powers and duties possessed by, or imposed on, the Governor-General in Council under, or in connection with, or for the purposes of the following provisions of the Act, namely, Section 29A, Section 30 (1*a*), Part VIIA, or of any rules made by, or with the sanction of, the Secretary of State in Council.

It will thus be seen that as regards central and reserved subjects the Secretary of State retains his statutory control and that the powers enjoyed by the authorities in India are derived from delegations made by him, while as regards transferred subjects the powers primarily rest with the legislature in India from whom Ministers are appointed by the Governors of the several provinces and the interference

of the Secretary of State or the Government of India is restricted to the cases specified in the rules made under the Act.

46. The financial limitations on the powers of Ministers as regards transferred subjects are set out in the following rules :—

The previous sanction of the Secretary of State in Council is necessary—

(1) to the creation of any new or the abolition of any existing permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of an all-India Service, or to the increase or reduction of the cadre of an all-India Service;

(2) to the creation of a permanent post on a maximum rate of pay exceeding Rs. 1,200 a month, or the increase of the maximum pay of a sanctioned permanent post to an amount exceeding Rs. 1,200 a month;

(3) to the creation of a temporary post with pay exceeding Rs. 4,000 a month, or to the extension beyond a period of two years of a temporary post or deputation with pay exceeding Rs. 1,200 a month;

(4) to the grant to any Government servant or to the family or other dependants of any deceased Government servant of an allowance, pension or gratuity which is not admissible under rules made or for the time being in force under Section 96B of the Act, except in the following cases :—

(*a*) compassionate gratuities to the families of Government servants left in indigent circumstances subject to such annual limit as the Secretary of State in Council may prescribe; and

(*b*) pensions or gratuities to Government servants wounded or otherwise injured while employed in Government service or to the families of Government servants dying as the result of wounds or injuries sustained while employed in such service,

granted in accordance with such rules as have been or may be laid down by the Secretary of State in Council in this behalf ; and

(5) to any expenditure on the purchase of imported stores, or stationery otherwise than in accordance with such rules as may be made in this behalf by the Secretary of State in Council.

If the sanction of the Secretary of State in Council is required by these rules to any expenditure, such sanction should be obtained before the proposal for expenditure is included in a demand for a grant.

The local Government may delegate any of its powers to an authority subordinate to it after previous consultation with the Finance Department, to such extent as may be required for the convenient and efficient despatch of public business.

47. The powers regarding " Reserved " subjects given to the local Governments are as below :—

The previous sanction of the Secretary of State in Council is necessary—

(1) To the creation of any new or the abolition of any existing permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of an all-India Service, or to the increase or reduction of the cadre of an all-India Service.

(2) To the creation of a permanent post on a maximum rate of pay exceeding Rs. 1,200 a month, or in Burma Rs. 1,250 a month, or the increase of the maximum pay of a sanctioned permanent post to an amount exceeding Rs. 1,200 a month, or in Burma Rs. 1,250 a month.

(3) To the creation of a temporary post on pay exceeding Rs. 4,000 a month, or the extension beyond a period of two years (or, in the case of a post for settlement operations, of five

years) of a temporary post or deputation on pay exceeding Rs. 1,200 a month, or in Burma Rs. 1,250 a month.

(4) To the grant to any Government servant or to the family or other dependants of any deceased Government servant of an allowance, pension or gratuity which is not admissible under rules made or for the time being in force under section 96B of the Government of India Act, except in the following cases :—

(*a*) compassionate gratuities to the families of Government servants left in indigent circumstances, subject to such annual limit as the Secretary of State in Council may prescribe; and

(*b*) pensions or gratuities to Government servants wounded or otherwise injured while employed in Government service or to the families of Government servants dying as the result of wounds or injuries sustained while employed in such service, granted in accordance with such rules as have been or may be laid down by the Secretary of State in Council in this behalf.

(5) To any expenditure on the purchase of imported stores or stationery, otherwise than in accordance with such rules as may be made in this behalf by the Secretary of State in Council.

(6) To capital expenditure upon irrigation and navigation works, including docks and harbours, and upon projects for drainage, embankment and water storage and the utilisation of water power, in any of the following cases, namely :—

(*a*) where the project concerned materially affects the interests of more than one local Government;

(*b*) where the original estimate exceeds 50 lakhs of rupees;

(c) where a revised estimate exceeds by 15 per cent. an original estimate sanctioned by the Secretary of State in Council ; and

(d) where a further revised estimate is proposed after one revised estimate has already been sanctioned by the Secretary of State in Council.

(7) To a revision of permanent establishment involving additional establishment charges exceeding Rs. 5 lakhs a year ; provided that if a resolution has been passed by the Legislative Council recommending an increase of establishment charges for this purpose, the sanction of the Secretary of State in Council shall not be required unless the expenditure so recommended exceeds 15 lakhs a year.

(8) To any increase of the contract, sumptuary or furniture grant of a Governor.

(9) To expenditure upon original works on the residences of a Governor exceeding Rs. 50,000 in any year. The Governor General in Council shall, if necessary, decide whether a charge falls under the head of original works.

(10) To any expenditure upon railway carriages or water-borne vessels specially reserved for the use of high officials, otherwise than in connection with the maintenance of such carriages or vessels already set apart with the sanction of the Secretary of State in Council for the exclusive use of a Governor.

48. The following further conditions have been laid down in regard to the rules referred to in paragraph 47 :—

(1) These rules supersede all previous rules of a similar nature and, subject to their observance, orders regarding specific cases of expenditure passed by the Secretary of State in Council or the Governor General in Council under regulations previously in force will no longer be binding.

(2) If the sanction of the Secretary of State in Council is required by these rules to any expenditure, such sanction should ordinarily be obtained before the

Legislative Council is asked to vote supply to meet the expenditure (see Chapter 6). The Governor in Council may depart from this rule in cases of extreme urgency, where the time available is so short that sanction cannot be obtained by telegraph; but in such a case a statement showing all schemes for which supply has been asked before sanction has been obtained must be submitted to the Secretary of State in Council as soon as possible after the presentation of the demands to the Council.

(3) The Governor in Council may sanction any excess over an estimate which has, prior to the introduction of these rules, received the sanction of the Secretary of State in Council or the Governor General in Council if the total cost of the estimate, as increased by the excess, is within the powers of sanction conferred upon the Governor in Council by these rules; and may sanction the extension of a temporary post which has received similar sanction if he would, under these rules, be competent to sanction the creation of such a post for the full term as extended.

(4) Subject to the observance of these rules and to the provisions of section 72D of the Government of India Act, the Governor in Council has full power to sanction expenditure upon reserved provincial subjects and, with the previous consent of his Finance Department, to delegate such power upon such conditions as he may think fit to any officer subordinate to him. Any sanction given under this rule will remain valid for the specified period for which it is given, subject, in the case of voted expenditure, to the voting of supply in each year.

49. With regard to expenditure on provincial reserved and transferred subjects which require the sanction of the Secretary of State, every such application of the local Government should be addressed to the Governor General in Council, who shall, except in the cases referred to below in which he can himself sanction, forward the same with his recommendations, and with such further explanations of the

proposal as he may have seen fit to require from the local Government, for the orders of the Secretary of State in Council.

The Governor General in Council has power at his discretion to sanction on behalf of the Secretary of State in Council the following items of expenditure which require a reference to the Secretary of State :—

(*a*) the grant in an individual case of any increase of pay, or

(*b*) the creation or extension of a temporary post.

If he himself does not exercise his discretion and sanction the proposal, he may, and if he dissents from the proposal, shall, forward the application with his recommendations, and with such further explanations of the proposal as he may have seen fit to require from the local Government, for the orders of the Secretary of State in Council.

It will be observed that the powers granted to the Governor General in Council to sanction in particular cases certain items of expenditure on behalf of the Secretary of State in Council constitute an important delegation of powers.

The new Central Audit Resolution.

50. The following rules define the classes of expenditure from central revenues upon subjects other than provincial subjects which the Governor General in Council may not sanction without the previous consent of the Secretary of State in Council. These rules supersede all previous rules of a similar nature and, subject to their observance, orders regarding specific cases of expenditure passed by the Secretary of State in Council under regulations previously in force will no longer be binding.

NOTE.—Since the enactment of the Government of India Act, 1919, and of the Devolution Rules it is not permissible to incur expenditure from central revenues on provincial subjects or to make assignments from central to provincial revenues for expenditure on a provincial subject except in so far as such expenditure may be necessary in connection with matters covered by item 52 in Part II of Schedule I to the Devolution Rules or represent payment for services rendered by the local Government.

If the sanction of the Secretary of State in Council is required by these rules to any expenditure, such sanction

should ordinarily be obtained before the Legislative Assembly is asked to vote supply to meet the expenditure. The Governor General in Council may depart from this rule in cases of extreme urgency, where the time available is so short that sanction cannot be obtained by telegraph ; but in such a case a statement showing all schemes for which supply has been asked before sanction has been obtained must be submitted to the Secretary of State as soon as possible after the presentation of the demands to the Assembly.

Subject to the observance of these rules and to the provisions of section 67A of the Government of India Act, the Governor General in Council has full power to sanction expenditure from central revenues upon subjects other than provincial subjects and, with the previous censent of the Finance Department, to delegate such power upon such conditions as he may think fit either to any officer subordinate to him or to a local Government acting as his agent in relation to a central subject. Any sanction given under this rule will remain valid for the specified period for which it is given, subject in the case of voted expenditure to the voting of supply in each year. Orders of delegation passed under this rule may contain a provision for re-delegation by the authority to which the powers are delegated.

Rules relating to expenditure by the Government of India on subjects other than provincial.

The previous sanction of the Secretary of State in Council is necessary :—

(1) To the creation of any new or the abolition of any existing permanent post, or to the increase or reduction of the pay drawn by the incumbent of any permanent post, if the post in either case is one which would ordinarily be held by a member of one of the services named in the schedule, or by an officer holding the King's commission, or to the increase or reduction of the cadre of any of those services, or of a service ordinarily filled by officers holding the King's commission.

(2) To the creation of a permanent post on a maximum rate of pay exceeding Rs. 1,200 a month, or the increase of

the maximum pay of a sanctioned permanent post to an amount exceeding Rs. 1,200 a month.

(3) To the creation of a temporary post on pay exceeding Rs. 4,000 a month, or the extension beyond a period of two years (or, in the case of a post for settlement operations, of five years) of a temporary post or deputation on pay exceeding Rs. 1,200 a month.

(4) To the grant to any Government servant or to the family or other dependents of any deceased Government servant of an allowance, pension or gratuity which is not admissible under rules made or for the time being in force under section 96B of the Government of India Act, or under Army Regulations, India, except in the following cases :—

(*a*) compassionate gratuities to the families of Government servants left in indigent circumstances, subject to such annual limit as the Secretary of State in Council may prescribe; and

(*b*) pensions or gratuities to Government servants wounded or otherwise injured while employed in Government service or to the families of Government servants dying as the result of wounds or injuries sustained while employed in such service, granted in accordance with such rules as have been or may be laid down by the Secretary of State in Council in this behalf.

(5) To any expenditure on a measure costing more than Rs. 5,00,000 (initial *plus* one year's recurring) and involving outlay chargeable to the Army or Marine estimates.

(6) (*a*) To any expenditure on the inception of a Military Works project which is estimated to cost, or forms part of a scheme which is estimated to cost, more than Rs. 10,00,000.

(*b*) To any expenditure on a Military Works project in excess of the original sanctioned estimate, if—

(*i*) the excess is more than 10 per cent. of the original sanctioned estimate, and the estimated cost of the project thereby becomes more than Rs. 10,00,000;

(*ii*) the original estimate has been sanctioned by the Secretary of State, and the excess is more than

10 per cent. of that estimate, or more than Rs. 10,00,000.

(c) To any expenditure on a Military Works project, in excess of a revised or completion estimate sanctioned by the Secretary of State.

Provided that, for the purposes of clauses (b) (ii) and (c) of the rule, if any section accounting for 5 per cent. or more of the estimated cost of a project sanctioned by the Secretary of State is abandoned the estimated cost of the works in that section shall be excluded from the total sanctioned estimate of the project for the purpose of determining whether the Secretary of State's sanction is necessary.

(7) To any expenditure on the purchase of imported stores or stationery, otherwise than in accordance with such rules as may be made in this behalf by the Secretary of State in Council.

(8) To any expenditure, otherwise than in accordance with such rules as have been or may be laid down in this behalf by the Secretary of State in Council, upon—

(a) the erection, alteration, furnishing, or equipment of a church; or a grant-in-aid towards the erection, alteration, furnishing or equipment of a church not wholly constructed out of public funds; or

(b) the provision of additions to the list of special saloon and inspection railway carriages reserved for the use of high officials; or

(c) the staff, household and contract allowances, or the residences and furniture provided for the use of the Governor General; or

(d) railways.

The foregoing rules do not apply to expenditure in time of war with a view to its prosecution. The Government of India have full powers with regard to such expenditure subject only to the general control of war operations which is exercised by the Secretary of State for India in consultation with His Majesty's Government; to the necessity of obtaining the sanction of the Secretary of State in Council to really important special measures required to carry out

those operations, where in the judgment of the Government of India time permits a previous reference to him; and to the obligation to keep him as fully informed as circumstances allow of their important actions.

The Schedule.

1. Indian Civil Service.
2. Indian Police Service.
3. Indian Forest Service.
4. Indian Educational Service.
5. Indian Agricultural Service.
6. Indian Service of Engineers.
7. The Indian Veterinary Service.
8. Indian Medical Service.
9. Imperial Customs Service.
10. Indian Audit and Accounts Service (Civil and Military).
11. Superintendents and Class I of the Survey of India Department.
12. The Superior Staff of the Geological Survey of India Department.
13 The Superior Telegraph branch of the Posts and Telegraph Department.
14. State Railway Engineering Service.
15. The Superior Staff of the Mint and Assay Department.
16. Archæological Department.
17. Any other service declared by the Secretary of State in Council to be included in this Schedule.

51. Besides the necessity for the existence of the sanction of proper authority as explained in previous paragraphs, it is a fundamental rule that funds should be provided for all items of expenditure. For this purpose the expenditure is divided into two classes, *viz.*, (1) Voted and (2) Non-voted, *vide* paragraph 58. The funds for the former are sanctioned by the legislature, while those for the latter by the Government, as explained in detail in Chapter 6. Budget Provision and Vote of grants.

Sanctions to expenditure on public services.

52. In dealing with the audit of sanctions in this chapter, it is necessary also to deal with the sanctions to expenditure on public services and to state how they are affected by the Reforms.

Section 96B (2) of the Act authorises the Secretary of State to make rules for regulating the classification of the civil services in India, the methods of their recruitment, their conditions of service, pay and allowances and discipline and conduct. Such rules may, to such extent and in respect of such matters as may be prescribed, delegate the power of making rules to the Governor General in Council or to local Governments, or authorise the legislature in India to make laws regulating the public services.

The rules regarding classification, recruitment, discipline and conduct are contained in the Recruitment Rules. The classification made under this section divides the services attached to provinces into 4 classes :—

(1) All-India Services.

(2) Provincial Services.

(3) Subordinate Services.

(4) Officers holding special posts.

The powers of sanction of expenditure from provincial revenues on these services are set out in paragraphs 46 to 49 above. Where central revenues are concerned the powers are set out in paragraph 50 above but there the term all-India Services cannot be used as that term has been defined in the Recruitment Rules with reference to services paid from provincial revenues only. In regard to public services administering central subjects, the powers delegated to the central Government are the same as those allowed to provincial Governments for services in connection with reserved subjects subject to the necessary grants being voted by the Legislative Assembly.

Principles underlying the Fundamental Rules.

53. The rules regarding conditions of service, pay and allowances are contained in the Fundamental Rules which take the place of corresponding rules in the previous compilation called the Civil Service Regulations. The following

are the main principles underlying the Fundamental Rules :—

(1) Duty is the basis of pay and leave, that is

(*a*) an officer performing the duties of an appointment gets the pay of the appointment irrespective of the fact whether he is holding it substantively or is only officiating in it, and

(*b*) the period of duty which an officer puts in is made the basis for calculating his leave.

(2) No acting promotion is to be given unless an officer's duties are changed.

(3) A leave account is to be maintained, all the entries in which whether of leave earned or of leave taken are in terms of leave on average pay. But the leave taken may be either on average pay, half average pay or quarter average pay.

54. Section 96B (3) of the Act permits the Secretary of State in Council to frame rules relating to pension. Such rules which will replace the corresponding rules in the Civil Service Regulations have not yet been approved by the Secretary of State.

55. As pointed out in paragraphs 42 and 43 above, the question of delegation was very complicated before the introduction of the Reforms. At present, however, the Governor General in Council and the Governors in Council are at liberty after previous consultation with the Finance Department of their Government, to delegate, with or without conditions, to any officer subordinate to them, or (in the case of the Governor General in Council) to a local Government acting in relation to central subjects as the agent of the Governor General in Council, any of the powers of sanctioning expenditure which they themselves possess. As explained in paragraph 50 above, it has further been ruled by the Secretary of State that any orders of delegation which the Governor General in Council may issue may also contain a provision to the effect that the authority to which the powers are delegated may in turn re-delegate any of its powers to any lower authority. Delegation of power.

Chapter 6.

Audit Against Appropriation.

Conditions for incurring expenditure.

56. The incurring of expenditure from the revenues of India is invariably subject to the following main conditions :—

(*i*) That there exists a sanction of competent authority for incurring the charge.

(*ii*) That funds to cover the charge during the year have been provided by competent authority.

The audit in respect of condition (*i*) has been dealt with in Chapter 5, and this chapter deals with the audit in respect of the provision of funds or the appropriation to cover the charge.

Definition of term "appropriation."

57. As stated in paragraph 7, the Government and the legislature decide as to the amount of expenditure which can be incurred in any year in carrying out the various activities of the Government. The assignment to meet specified expenditure from the funds so sanctioned by Government or the legislature is called an appropriation.

Authority for sanction of funds.

58. For the purposes of determining the authority which can provide funds the Government of India Act divides expenditure into two classes, *i.e.*, (1) Voted and (2) Non-voted. The former class includes the items for which the provision of funds is subject to the vote of the legislature; while funds for the latter class are sanctioned by Government without reference to the legislature. The latter class includes only the following items :—

Central Expenditure :—

(*i*) Interest and sinking fund charges on loans.

(*ii*) Expenditure of which the amount is prescribed by or under any law.

Explanation.—Prescription under any law should be considered to include all cases in which an authority is empowered to fix the sum which shall be expended upon a particular object and that authority proceeds to declare the particular amount which shall be so expended.

(*iii*) Salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council.

Explanation 1.—The term "salaries" as defined by the Governor General in Council under section 67A (4) of the Government of India Act, includes the following emoluments:—

(*a*) Any emoluments classed as pay under Fundamental Rule 9 (21).

(*b*) Any emoluments drawn monthly by a Government servant which are classed as compensatory allowances under Fundamental Rule 9 (5) except travelling allowances as defined in Fundamental Rule 9 (32).

(*c*) Any emoluments classed as leave salary under Fundamental Rule 9 (12).

Explanation 2.—The words "appointed by or with the approval of the Secretary of State in Council" should be interpreted as explained below:—

(1) All appointments made in England prior to the date of the passing of the Government of India Act, 1919, *viz.*, the 23rd December 1919, including cases where a contract has been entered into signed by two members of the Council of India and is expressed to be made by the Secretary of State in Council, should be treated as having actually been made by the Secretary of State in Council, for the purposes of Sections 67A(3)(iii) and 72D(3)(iv) of the Government of India Act. This position will not be affected even if the persons concerned are transferred by an authority in India to posts other than those to which they were originally appointed provided there is no break in their services.

(2) From the date of the coming into force of section 29A and the amendment of section 29 of the Act, *viz.*, the 29th July 1920, appointments in England may be made by—

(*i*) the Secretary of State in Council,

(*ii*) an agent of the Secretary of State in Council in England, or

(*iii*) the High Commissioner contracting on behalf of the Governor General in Council or a local Government.

In these cases only appointments falling under (*i*) will come within the provisions of the sections.

(3) All appointments made in India both before and after the passing of the Government of India Act, 1919, should usually be assumed to have been made by an authority in India unless there is definite evidence to show that the Secretary of State in Council specifically appointed the

particular person. The salaries of all persons appointed in India are therefore usually votable although the form of their agreement of service may have been approved by the Secretary of State or the post to which they are appointed may have been sanctioned by that authority.

(iv) Salaries of Chief Commissioners and Judicial Commissioners.

(v) Expenditure classified by the order of the Governor General in Council as—

(a) Ecclesiastical;

(b) Political;

(c) Defence.

Provincial Expenditure :—

(i) Contributions payable by the local Government to the Governor General in Council.

(ii) Interest and sinking fund charges on loans.

(iii) Expenditure of which the amount is prescribed by or under any law.

(iv) Salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council.

(v) Salaries of judges of the High Court of the province and of the Advocate General.

All other items of expenditure are classed as voted.

Demands for grants.

59. The proposals of Government for expenditure on noted items are submitted to the legislature in the form of demands for grants under the following rules made under the Act:—

"(1) A separate demand shall ordinarily be made in respect of the grant proposed for each department of the Government, provided that the Finance Member may in his discretion include in one demand grants proposed for two or more departments, or make a demand in respect of expenditure which cannot readily be classified under particular departments.

(2) Each demand shall contain, first a statement of the total grant proposed, and then a statement of the detailed estimate under each grant divided into items.

(3) Subject to these rules the Budget shall be presented in such a form as the Finance Member may consider best fitted for its consideration by the Assembly."

The demands are subject to the further restriction that if any expenditure requires the sanction of the Secretary of State in Council, it should not be included in a demand unless the required sanction has already been obtained. See paragraphs 46, 48 and 50.

The legislature can vote only on proposals so placed before it by Government. This provision has been made in the Government of India Act on the analogy of the existing practice in England.

An extract from the schedule of demands for grants of the Central Government, for the year 1922-23, submitted for the vote of the Legislative Assembly which is printed as Appendix A will show how demands are actually prepared at present.

60. The legislature may grant, or refuse its assent to, any demand or may reduce the amount referred to in any demand by a reduction of the whole grant (or, in respect of provincial expenditure by the omission or reduction of any of the items of expenditure of which the grant is composed). As the legislature consists of an elected majority, this power confers on the people of India a considerable amount of control over the expenditure of India. So far as voted services are concerned a specific grant has to be sanctioned by the legislature before sanctions to expenditure can be acted upon. The control of the legislature is not, however, final as the Act gives the Governor General and the Governors certain powers, which are detailed below to incur expenditure even though it has not received the assent of the legislature.

Central Expenditure.

"The demands as voted by the Legislative Assembly shall be submitted to the Governor General in Council who shall, if he declares that he is satisfied that any demand which has been refused by the Legislative Assembly is essential to the discharge of his responsibilities, act as if it had been assented to, notwithstanding the withholding of

such assent or the reduction of the amount therein referred to, by the Legislative Assembly.

Notwithstanding anything in this section the Governor General shall have power, in cases of emergency, to authorise such expenditure as may, in his opinion, be necessary for the safety or tranquillity of British India or any part thereof."

Provincial Expenditure.

"The local Government shall have power, in relation to any such demand, to act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to, if the demand relates to a reserved subject and the Governor certifies that the expenditure provided for by the demand is essential to the discharge of his responsibility for the subject; and the Governor shall have power in cases of emergency to authorise such expenditure as may be in his opinion necessary for the safety or tranquillity of the province, or for the carrying on of any department."

Difference between powers of a Governor and the Governor General.

61. It will be noticed that there is an essential difference between the powers of a Governor and those of the Governor General. In cases of emergency both can authorise expenditure but in other cases while the Governor can sanction expenditure which he certifies to be necessary for the discharge of his responsibilities only in the case of certain subjects classified as "Reserved," the Governor General in Council can adopt this procedure in the case of all expenditure under his control. This difference is due to the fact that in the case of central subjects no portions are transferred to popular control and placed entirely under the control of the legislature.

Grants and units of appropriation.

62. A demand when sanctioned becomes a grant which may be in respect of expenditure falling under one or more major heads or sections of a major head. For purposes of financial control, the grant or portion of a grant allotted to each major head of account is divided into primary units of appropriation, each of which may be divided or sub-divided as may be necessary into secondary units of appropriation.

The distribution of appropriations for primary units is usually effected as under :—

(*i*) The whole or a part of the appropriation for a primary unit within a grant may be placed at the disposal of a controlling authority or a disbursing officer, or the unit may be broken up into a number of secondary units (to cover a number of items of expenditure or a number of detailed heads of account) and the appropriation for any of these wholly or in part, may be placed at his disposal.

(*ii*) A controlling officer at whose disposal an appropriation for a primary or secondary unit has been placed, may, out of it, allot funds for expenditure on a specific item, or on a group of items.

(*iii*) The sum total of all appropriations made by any controlling authority from a unit should not exceed the amount of the unit, or portion thereof, placed at his disposal.

Example.—The following are some of the primary units for the grant of Civil Works of the Central Government :—

Original Works, Repairs, Grants-in-aid, Pay of Officers, Pay of Establishment, Allowances, honoraria, etc., Supplies and services, Contingencies and Suspense. Any sub-division of these, *e.g.*, major works and minor works under the unit for Original Works or the sub-divisions of the unit of Suspense into Stock, London Stores, Miscellaneous P. W. Advances and Purchases are called secondary units.

63. Once the legislature have sanctioned the grants, the amount of these grants cannot be increased without the further sanction of that body. This sanction is necessary in the following cases and is accorded in the form of a supplementary grant :— Supplementary Grants.

(*i*) when the amount of a grant voted in the budget is found to be insufficient for the purpose of the current year, or

(*ii*) when a need arises during the current year for expenditure, for which the vote of the legislature is necessary, upon some new service not contemplated in the budget for that year.

Re-appropriations.

64. But within the amount of the sanctioned grant, the Government possesses full powers of transferring the provision from one unit to another by a formal order of re-appropriation. For example, the Finance Department of a local Government has been given power to sanction any re-appropriation within a grant from one major, minor or subordinate head to another. The Member or Minister in charge of a department has power to sanction re-appropriations within a grant between heads subordinate to a minor head, provided the transfer does not involve undertaking a recurring liability. Powers of re-appropriation may also be delegated by a Member or Minister to subordinate authorities with the sanction of the Finance Department under the rules framed by the local Government. As regards re-appropriation from one grant to another no authority subordinate to the Legislative Council has the power because the amounts of the grants are fixed by that body and these amounts cannot be increased without their further sanction. The powers of re-appropriation within the grants under the Government of India are regulated by rules made by the Governor General in Council.

65. The powers referred to in the preceding paragraph refer only to those services for which expenditure is voted by the legislatures. So far as non-voted services are concerned any expenditure in excess of the estimate for that head shown in the budget for the year can be incurred only after consultation with the Finance Department. As regards re-appropriation from one head to another, as the expenditure under these heads is compulsory and has to be sanctioned after consultation with the Finance Department, no re-appropriation will be necessary. The Finance Department may, however, frame rules to regulate the procedure where re-appropriations are found to be necessary. This rule applies only to expenditure on provincial subjects. As regards central subjects the Governor General in Council has full power as regards non-voted services and they will be exercised by the several departments of the Government of India in accordance with the rules framed by the Governor General in Council.

66. Re-appropriations from a non-voted head to a voted head of grant under a local Government are not permissible as a voted grant cannot be increased except by the Legis-

lative Council. Re-appropriations from a voted head to a non-voted head are permissible and may be sanctioned by the Finance Department of a local Government if the local Government anticipates a lapse under the voted head or there is an actual surrender from the voted grant. Re-appropriations from a voted head to a non-voted head under the Central Government are regulated by rules framed by the Governor General in Council.

Duties of the Audit Department.

67. The Audit Department is responsible for auditing the grants, appropriations and re-appropriations and for auditing the expenditure against grants and appropriations to the extent indicated below :—

(a) *Audit of grants.*

To see :—

(*i*) that the grant for votable expenditure is covered either by the vote of the legislature or by orders issued under Sections 67A (7) and (8) or provisos (*a*) and (*b*) of Section 72D (2) of the Government of India Act as the case may be ;

(*ii*) that the grant for non-votable expenditure has been sanctioned by Government.

(b) *Audit of appropriations and re-appropriations.*

To see :—

(*i*) that the order has not the effect of increasing the amount of a grant without the sanction of competent authority,

(*ii*) that the amount appropriated is available under the unit from which it is allotted, and

(*iii*) that the order is issued by competent authority.

(c) *Audit of expenditure against grants and appropriations.*

(*i*) The Audit Officer is responsible for watching firstly, that the total expenditure under a grant does not exceed the grant and secondly that the total expenditure on each primary unit within a grant does not exceed the appropriation therefor, as modified by orders of re-appropriation passed by competent authority from time to time.

(*ii*) He must further see on behalf of the executive Government (Central or Provincial) that, if under the financial rules of that Government, a particular object of expenditure requires a specific appropriation, all expenditure on it is audited against such appropriation.

(*iii*) Similarly, if a lump sum appropriation is made for a group of items of expenditure of an office, the total expenditure thereon will be audited against the lump sum placed at the disposal of the disbursing officer for the purpose.

(*iv*) When, however, several officers are authorised to incur charges relating to a unit of appropriation, against a lump sum appropriation placed for the purpose at the disposal of a single higher authority, it devolves upon this authority to watch the progress of expenditure in all the offices and to keep the aggregate charges within the appropriation. If the Audit Officer is requested by the local Government to audit the charges against the appropriation, he will comply with the request.

Chapter 7.

Audit and Appropriation Reports.

68. The detailed results of audit are reported by Audit Officers to the disbursing and controlling authorities at the earliest opportunity under the procedure laid down in Chapters 40—42 of the Audit Code, but the collective results of audit are presented annually by the Auditor General to the Government in two reports, *viz.*, (1) the Audit Report, and (2) the Appropriation Report, which are placed before the Public Accounts Committee of the legislature. Copies of these reports are also submitted by the Auditor General to the Secretary of State through the Governor General in Council, as required by the following rule framed under section 96D (1) of the Government of India Act :—

"15. (*a*) The Auditor General shall on such dates as he may prescribe, obtain from each principal auditor, and from any officers of the Indian Audit Department to whom he may entrust this duty, Audit and Appropriation Reports reviewing the results of the audit conducted by and under such officer during the past official year. Any officer of Government may be called upon to provide any information necessary for the preparation of these reports, which shall be in such form and shall deal with such matters as the Auditor General may prescribe. On receipt of these reports the Auditor General shall transmit them to the Governor General in Council or to the Finance Department of the local Government concerned with such comments as he may think fit.

"(*b*) The Auditor General shall forward to the Secretary of State through the Governor General in Council the several reports dealing with the total expenditure in India in each year with his detailed comments on each report and may also offer such further comments of a general nature as he may think fit."

These reports are prepared separately for each province and administration by the Accountants General concerned (*vide* Article 801 of the Audit Code) and the reports for

Posts and Telegraphs, Railways, Military and Indian Stores Departments are prepared by the Accountants General of those departments for submission to the Government through the Auditor General. The detailed rules for the preparation of these reports are given in Chapter 43 of the Audit Code.

Audit Report. 69. The Audit Report deals with the collective results of all classes of audit, excluding the audit in respect of appropriations, *i.e.* :—

(*i*) Important cases of financial irregularity, *e.g.*, those involving serious breaches of rules or orders leading to, or likely to lead to, losses of public money, or serious breaches of audit procedure or safeguards.

(*ii*) Statistics and analysis of objections with comments on the types of irregularities generally committed towards the end of the year.

(*iii*) The special activities of the Audit Department during the year.

70. The procedure followed in calling attention to the irregularities of class (*i*) referred to in the previous paragraph requires special mention. As soon as an Audit Officer becomes aware of a serious disregard of a financial rule he reports it at once to the head of the department in which the officer responsible for the irregularity is serving. He is entitled to be told what action is taken on his report and if the action taken is not adequate the matter is reported to the Finance Department for such action as may be suitable. Important cases are then brought to the notice of the Public Accounts Committee periodically throughout the year, if so desired by it, in reports in which the action taken by Government in each case is stated. They are mentioned in the next Audit Report with full particulars specifying the recommendations of the Public Accounts Committee, and further action, if any, taken by Government.

Appropriation Report. 71. The Appropriation Report deals mainly with :—

(i) The results of appropriation audit and

(ii) the review of the financial position of the Government.

The results of appropriation audit are presented in two different portions in respect of (1) audit on behalf of the legislature and the Public Accounts Committee and (2) audit on behalf of the executive Government. The results of audit falling under class (1) are exhibited in Appropriation Accounts in two parts. Part I compares the consolidated grants with the actual expenditure against each, stating also the revisions and re-appropriations sanctioned during the year. Part II details the figures of Part I by major and minor heads tracing the large excesses into units of appropriation. These accounts enable the Public Accounts Committee to satisfy itself that money has been spent by Government within the scope of the demands granted and that no expenditure has been incurred in excess of the vote of the legislature. The Public Accounts Committee and the legislature are not, however, primarily concerned with the funds placed at the disposal of the individual officers or the amounts of expenditure incurred by each such officer. The results of appropriation audit on behalf of the executive Government are therefore published as an appendix to the Report in a separate volume to enable it to see that its agents have not disregarded the limitations placed on them.

The review of the financial position of the Government should indicate not only the results of the year but should also show whether the position has improved or deteriorated during the past few years referring to the main causes that have been at work to effect the result. To elucidate the present position, the cash situation will of course have to be explained, but, in addition, the growth or diminution of liability should be indicated. For this purpose, both revenue and expenditure should be suitably analysed, and permanent commitments distinguished from those of a temporary character, the former being detailed to the extent necessary, and the latter subdivided as may be suitable. Contingent liabilities, such as estimated expenditure on uncompleted schemes or works, should receive special attention, as well as assets not yet brought to account.

72. As stated in paragraph 68 above the reports received from the Accountants General are submitted by the Auditor General with his comments to (1) the Governments concerned for disposal as indicated in paragraph 74, and Disposal of Report.

(2) to the Secretary of State through the Governor General in Council. In the latter case the Auditor General has to offer such comments of a general nature as he may think fit after scrutiny of the accounts of the whole of India so as to present the general trend of audit development and the progress of financial control in India under the Reforms Scheme, quoting where necessary, individual cases of financial irregularity as examples illustrative of the comments.

Functions of the Public Accounts Committee.

73. As under the Reforms Scheme it is proposed to "give the provinces the largest measure of financial independence of the Government of India which is compatible with the due discharge by the latter of its own responsibilities", the powers of financial control which have hitherto been exercised by the Government of India, Finance Department, in regard to provincial finance will devolve in future to a large extent on the provincial Finance Departments and the provincial Legislative Councils. Each provincial legislature will for the exercise of its functions appoint a Public Accounts Committee which will deal with all reports from the Finance Department on excesses or re-appropriations, as well as with all audit and appropriation reports of the provincial Accountants General, and will advise the legislature upon all serious departures from budget provision and upon all surcharges and disallowances of the Audit Officers and upon the action which the executive authorities have taken upon them. The Committee will also bring to the notice of the legislature :—

(i) Every re-appropriation from one grant to another grant ;

(ii) Every re-appropriation within a grant which is not made in accordance with the rules regulating the functions of the Finance Department or which has the effect of increasing the expenditure on an item the provision for which has been specifically reduced by a vote of the Council ; and

(iii) all expenditure which the Finance Department has requested should be brought to the notice of the Council.

Similarly the Public Accounts Committee of the Indian Legislature will exercise the same functions and will deal with the Audit and Appropriation Reports of the departmental Accountants General, and of the Accountant General, Central Revenues, and with the reports of the Finance Department of the Government of India on important matters brought to notice.

74. The Finance Department will take into consideration any recommendations of the Public Accounts Committee or the orders of the legislature and will at the same time forward to the Audit Officer and to the Auditor General (1) the report of the Public Accounts Committee, (2) the recommendations or resolution of the legislature thereon and (3) any orders that may be passed by the Government in giving effect to the views of the legislature. Action on the recommendations of the Public Accounts Committee.

It is open to the Audit Officer in the next Audit Report and to the Auditor General in his comments thereon to indicate the action which has been taken in respect of cases previously brought to notice and to comment on the adequacy of the action.

75. These reports are thus public documents of considerable importance. They should, therefore, receive the personal attention of the Accountant General. Every endeavour should be made to convey, through these reports, a just, impartial, and yet sympathetic picture of the financial administration, as, to the Government concerned, the reports will show the extent to which its subordinate officers are complying with its rules and orders, and to the tax-payer and the Secretary of State, they will exhibit the extent to which the Government is complying with the orders and views of the legislature. It should be borne particularly in mind that the control which the legislature of the provinces will exercise over the provincial finances will depend largely upon the effectiveness of the help rendered by these reports. General.

Chapter 8.

Relations between the Audit Department and the Finance Department.

Difference between the form of financial control before and after the Reforms.

76. In paragraph 74 of the First Despatch on Reforms the Government of India stated as follows :—

"The withdrawal of external control over provincial finance implies the substitution of effective control within the province. That control in practice may be divided between the Finance Department (or treasury) of the province and the Legislative Council.

The external control referred to here means the control which the Secretary of State and the Government of India exercised over provincial finances prior to the introduction of the Reforms. The Reforms have given the provinces a large measure of financial independence as well as large powers of taxation and borrowing. The relaxation of the external control has now been replaced by control within the province partly by the Finance Department and partly by the legislature. This internal control is strengthened by the effective assistance rendered by the independent agency of the Audit Department which as explained in paragraph 70 brings financial irregularity and misdemeanour prominently to the notice of the executive authorities and the legislature. This chapter deals with the relations which the Audit Department has with the Finance Department in controlling the finances of the country.

Duties of the Finance Department.

77. The duties of the Finance Department of a Governor's province are detailed in Part III of the Devolution Rules and the more important of the duties, which involve co-operation with the Audit Department may be summarised briefly thus :—

(1) Scrutiny of the proposals for new expenditure and guarding against undue growth of expenditure on the public service.

(2) The safety and proper employment of the famine insurance fund and of the proceeds of borrowing.

(3) Framing of the financial rules and arranging for the maintenance of suitable accounts throughout the province.

(4) Controlling the delegations of financial powers by the local Government and the subordinate authorities.

(5) Taking action on the reports of the Audit Department and acting in co-ordination with that department.

78. As regards (1) of the previous paragraph, the Finance Department demands justification for new expenditure from the department which proposes it and challenges the necessity for spending so much money to secure a given object. The functions of the Finance Member in this respect are, however, advisory and the Minister or the Member in charge of the department concerned is not bound to accept the advice given by the Finance Member. But, after the expenditure is sanctioned or appears in accounts, the Audit Officer investigates the necessity for it through the proceedings and other papers leading to its sanction and if he considers the expenditure to be extravagant, he is in a position to challenge it and bring the irregular expenditure of public money to the notice of the Public Accounts Committee and the legislature through his Audit Report. Thus the Finance Department and the Audit Department have analogous functions in regard to new expenditure—the former advises before action is taken and the latter scrutinises the action taken either on receipt of the sanction or when the expenditure appears in the accounts.

79. In regard to item (2) of paragraph 77 the Finance Department has to see that proposals for the utilisation of the famine insurance fund and borrowed money fall within the objects on which they may be spent under the rules, while the Audit Department has to satisfy itself by its *ex post facto* scrutiny of the expenditure that such funds are actually spent only on authorised objects, and that if loans have been spent on unproductive objects sinking funds have

been created under the Local Government (Borrowing) Rules.

80. In respect of item (3) of paragraph 77 the Finance Department frames rules which are necessary to secure proper financial control in consultation with the Audit Department, and the latter department has to see that the rules are framed so as to satisfy the requirements of audit and do not impair the efficiency of audit. As regards accounts the Auditor General determines the form in which officers rendering accounts to the Indian Audit Department shall render such accounts and in which the initial accounts, from which the accounts so rendered are compiled or on which they are based, shall be maintained. As regards any other accounts that may be necessary, the Finance Department has to make necessary arrangements for maintaining suitable accounts. In such matters it will no doubt find it desirable to obtain the advice of the Audit Department. One branch of work in which these duties of the Finance Department are of special importance is "Local Funds" as these are not subject to the audit of the Indian Audit Department and the local Government is responsible for making its own arrangements for audit. As regards all accounts maintained by departments under a local Government the Finance Department is responsible for satisfying itself that they are actually kept in accordance with the prescribed rules.

81. In respect of item (4) of paragraph 77 above, the Finance Department examines the proposals for delegations of powers to ensure that such delegations are necessary for the convenient and efficient despatch of public business. After the orders for delegations are sanctioned the Audit Officer has also to satisfy himself in all important matters of delegation that they are not likely to impair seriously the efficiency of the conduct of public business. For instance, the principle of authorising disbursing officers themselves to sanction special charges may be carried too far or extended to cases in which obviously some sort of control by higher authority is advisable. If such cases are important, the Accountant General should make a suitable representation to the Finance Department, and thus give the latter the

opportunity of reviewing or reconsidering the order as the case may be.

82. As to item (5) of paragraph 77, the Finance Department on receipt of a report from the Audit Officer to the effect that expenditure for which there is no sufficient sanction is being incurred, may require the department concerned to take steps to obtain the necessary sanction or to stop the unauthorised expenditure. As stated in Chapter 7, it lays the Audit and Appropriation Reports before the Public Accounts Committee bringing to its notice all unauthorised expenditure as well as financialirregularities.

Spirit underlying the relations between the two Departments.

83. The spirit which should animate audit was explained in paragraph 77 of the First Despatch on Reforms from which the following extract is given :—

> "The audit will not only see whether there is quoted authority for expenditure but will also investigate the necessity for it. It will ask whether individual items were in furtherance of the scheme for which the budget provided ; whether the rate and scale of expenditure were justified in the circumstances ; in fact, they will ask every question that might be expected from an intelligent taxpayer bent on getting the best value for his money. The audit officers will also devote more of their time to looking into the manner in which the various executive officers are undertaking their more important financial responsibilities."

But as this ideal cannot be obtained without close co-ordination between the Audit office and the Finance Department, the Government of India in paragraph 75 of the same Despatch explained the desirability of such co-ordination as under :—

> "Finally the Finance Department must be in intimate relations with the audit. It will have to advise the auditor regarding the scope and intentions of schemes of expenditure, having itself been apprised of these in its discussions with the

executive authority at the preliminary stages. It will be consulted by the auditor about the detailed application of financial principles and the interpretation of financial rules. It will keep him informed about prices, local rates of labour, and many other facts which are relevant to his audit, but of which he has no direct source of knowledge."

84. The Finance Department also looks to the Audit Department for assistance in the discharge of its own duties in preparing the budget estimates and watching the progress of receipts and expenditure, and the following statutory rules provide for such assistance being given by the Audit Department:—

"23. The Auditor General shall supply, or shall arrange that officers subordinate to him supply, any information required by the Governor General in Council or by a local Government which can be derived from the accounts maintained in the offices under his control.

24. The Auditor General shall arrange that such assistance as may be required shall be rendered by the officers of the Indian Audit Department to the Governor General in Council, the local Governments and other authorities in the preparation of their annual budget estimates."

85. The foregoing paragraphs refer only to the relations between the Audit Department and the Finance Department of a Governor's province, but similar principles apply generally in regard to the relations of that department with the Finance Department of the Government of India.

Chapter 9.

Allocation of expenditure to Capital and Revenue.

86. In paragraph 6 above, the importance is emphasised, in dealing with commercial accounts, of a correct allocation of expenditure to the Capital account. Some departments of Government, as for example, Railways, Irrigation, Posts and Telegraphs, are worked on a commercial basis, and capital accounts are maintained for such departments. They are termed in the Civil Account Code *quasi* commercial departments.

Special accounts necessary in the case of commercial undertakings.

87. Just as a merchant will not embark on any new venture until he is satisfied that it is going to pay him, so it is incumbent on the responsible officers of Government, before deciding on any scheme of railway * construction, to "count the cost" and satisfy themselves that the revenue to be derived from the working of the projected railway, after meeting all expenses connected with its operation, maintenance and upkeep, will repay the interest on the capital expended on its construction and equipment.

Preliminary investigations.

An essential preliminary to the construction of a new railway, then, is an estimate of the cost of such construction and of the probable gross revenue which will be realised after construction. This information enables the authority, who under the Audit Resolution has power to sanction the construction of a railway, to determine whether sanction should be accorded to the construction or not.

88. The success of a commercial undertaking is determined by the percentage of the net profits to the capital expenditure. It is essential then to distinguish between expenditure which is debitable to Capital and Revenue accounts, respectively. Mr. Dicksee in his treatise on Auditing draws this distinction as follows :—

Distinction between Capital and Revenue.

" Shortly stated, the question can in any event be " answered by finding the answer to the following question :

* NOTE.—For the sake of simplicity railway schemes only are referred to in this description. It is equally applicable to a scheme for any other form of Government undertaking on commercial lines.

"Has the particular expenditure incurred in any individual "case been incurred for the sake of improving the earning "capacity of the undertaking? If the answer to this question "is in the affirmative, then, and to that extent, the expendi-"ture in question is Capital expenditure. But if it has only "had the effect of putting the earning capacity of the un-"dertaking upon the same footing as that which had pre-"viously obtained (and which has since declined by the "ordinary process of wear and tear, or the effluxion of "time, in respect of which no provision has been made) "it must be charged against Revenue. The precise meaning "of this latter qualification is that the mere renewal of "wasting assets, not otherwise provided for, cannot be "called Capital expenditure, but that any extension, or the "acquiring of fresh assets, is in the nature of Capital "expenditure."

Expenditure on construction of a Capital nature.

89. It is obvious, then, that the whole of the initial expenditure on the construction of the railway prior to its being opened for traffic must be reckoned as Capital expenditure, but that the Capital expenditure on a railway does not cease with the closing of the Project Estimate. That estimate merely provides for the first construction and equipment of the railway to meet the needs of traffic anticipated at the time of opening. As the traffic expands so the need for additional facilities increases, and, inasmuch as there is practically no limit to the expansion of traffic on a railway, the Capital account of the railway is never actually closed, but is added to from time to time in respect of extensions, enlargements, alterations, and substantial permanent improvements which add to the original value or durability of the property.

90. With effect from the date of opening of the Railway a separate set of Revenue accounts has to be kept up in addition to the set of Capital accounts previously maintained; and in the preparation of estimates, the allocation of bills, and the final record of expenditure in the accounts, a clear distinction has to be drawn between expenditure of a Capital nature, such as is referred to above, and the money spent on establishments employed in earning revenue, or on the carrying out of repairs, maintenance,

restorations, renewals, and substitutions chargeable to the Revenue account.

91. The first serious attempt to apply the general principles enunciated in paragraph 88 above to the detailed facts dealt with in the open line accounts of Indian railways was made in Sir Charles Wood's despatch of 1864, relevant portions of which are quoted below :— Rules of allocation in India.

(*a*) "There can be no doubt that the expenses of an additional length of railway, of the doubling of an existing line, of the original construction of any work including that of those intended to be only temporary, as well as of all additions to existing works, ought to be charged to the Capital account."

(*b*) "When new lines form a junction with an existing railway, the expense of the junction, and all its concomitant appliances of stations, sidings, signals, etc., is properly chargeable to Capital account and the cost should be divided, in such proportion as may be fair, between the two railways for whose mutual and joint benefit the junction is made."

(*c*) "The cost of additional stations and of any important building, not previously contemplated which is added to an existing station, should be charged to Capital account."

(*d*) "The cost of maintaining in a proper condition the works when completed must be charged to the Revenue account, but if any extraordinary casualty should occur such as the destruction of a bridge by flood, the case must be regarded as exceptional, and the cost of construction or replacement must be charged to Capital or Revenue, or divided between them, as may be deemed proper, according to the circumstances of the case."

(*e*) "In relaying rails, if the original rails have proved too light and additional strength in weight of iron or steel be required, the Capital account

should bear the difference between the cost of the new and improved rails and that of replacing the old rails by rails of similar character, Revenue being chargeable for relaying and all other expenses. The same principle should be applied to replacing by iron sleepers those of wood originally laid down."

(*f*) "In the locomotive stock, Capital ought to bear the first expense of any addition which may be made to the existing stock and of any important improvement or alteration which may be made in the same, as well as of machinery which is absolutely new, and not merely in replacement of old: but all repairs and less important alterations of the existing stock of engines, carriages or wagons already paid for and handed over for working purposes should be charged to Revenue. The rolling stock and plant, after being once paid for from Capital must be kept by Revenue to its full complement."

(*g*) "In no case should the cost of mere appurtenances of stock, after the opening of a line, or of a charge such as the substitution of one mode of lighting for another, whether in engines, carriages, stations, or signal lamps, the cost of which has already been paid for out of Capital, be admitted as capital expenditure. These properly belong to the traffic Revenue account."

The guiding principle right through, it will be observed, is that Capital having once paid for a work or service should not be charged over again in respect of the same work or service, so that the Capital (or Block) account may represent at any time the actual value of the railway and its equipment. This guiding principle is in accord with the general rule enunciated above. There are, however, minor deviations. Thus the cost of a work which has been abandoned and not replaced is not in practice written off to Revenue, but remains at debit of the Capital account. Theoretically, in order to arrive at the present value of the existing asset

an allowance would have to be made for depreciation, wear and tear, etc.; in actual practice, however, no such allowance is made as a railway is always supposed to be maintained in a state of efficiency, but, in lieu thereof, the entire cost of a replaced work is charged off to Revenue at the time of replacement.

92. With these principles to guide him the Audit Officer should find no difficulty in deciding to which head, Capital or Revenue, an item of work is properly chargeable, if it is purely an addition to or in substitution of an existing work. Cases, however, arise in which the work partakes of the nature of both substitution and addition or substantial improvement, and these are not quite so easy to deal with.

Take for example the case of substituting heavy rails for light ones. Here it is clearly recognized that the obligation of Revenue would be met by providing rails of the same weight as those which have been used up in the service of Revenue, and that Revenue is liable only to such extent. But the extra cost of the new heavy rail may be due not only to the increased weight but also to the increase in the price of rails, and in that case Revenue is responsible for the extra cost due to the increase in price on the weight of the original rail. Thus the rule in this case is that the charge to Capital based on differences in cost should never be greater than that arrived at on the basis of charging to Capital the proportion of the cost of the new rails attributable to increased weight. Rails.

The charge to Capital, it will be observed, is always restricted to the increased value of the *material asset*, the cost of labour in relaying being chargeable wholly to Revenue (see clause (*e*) of paragraph 91) on the principle that Capital, having originally provided a *finished* article, it devolves on Revenue to pay the extra cost involved in taking up that article and putting a new, though improved, one in its place.

The same principle applies *mutatis mutandis* in the renewal of iron or steel girders on bridges: where, however, the material used in the renewal or substitution is of a different class from that employed in the original construction, such, for example, as the substitution of iron sleepers Girders.

for wooden ones, or of a masonry bridge in place of a girder bridge, the basis of increased weight obviously cannot be applied and the charge to Capital has to be based on difference in cost alone.

Rolling stock.

93. Formerly, charges to Capital for substantial improvements were confined to permanent way, engineering works, etc., the practice in regard to rolling stock having been to replace an engine by an engine and a vehicle by a vehicle, regardless of increased power on the one hand or improved carrying capacity on the other. At the instance of certain Railway Companies, under whose contracts the cost of substantial improvements wherever effected is a proper charge to Capital, the practice was altered, and following the principle adopted in the case of relaying with heavier rails, the charge to Capital is now measured by the effective value of the improvement, based in the case of engines on increased tractive force, and in the case of coaching and goods vehicles on increased floor area and carrying capacity respectively, subject always to the charge so arrived at not being greater than the difference between the cost of the new article nd the original cost of the article it replaces.

Improved appurtenances.

94. The excess cost of improved appurtenances such as the substitution of automatic vacuum brakes for handbrakes, and of gas or electric light for oil lamps, is also now admitted as a separate charge to Capital. This it will be observed involves a departure from the general principle enunciated in paragraph 88. A similar departure is to be found in extract (*d*) from Sir Charles Wood's despatch—see paragraph 91. The exceptions in these cases are held to be justified by the very large sums involved.

Principles applicable to Government commercial undertakings.

95. The principles stated in paragraph 88 regarding allocation of expenditure between Capital and Revenue in commercial undertakings generally apply also to the commercial undertakings of Government.

96. The general principles applicable to Railways apply also to Posts and Telegraphs. Recently an English firm of chartered accountants of very high repute was asked to advise the Government of India on the system of accounts

of this department. They agreed generally with the principles stated in paragraph 91 regarding the allocation of charges between Capital and Revenue, but suggested (*i*) that the capital cost should be written off whenever there is an actual reduction in the value of assets, *e.g.*, when a work is abandoned or an asset is destroyed or injured by an extraordinary casualty or when an asset is replaced by another of equal efficiency, but of less value, and (*ii*) that a Depreciation Fund should be maintained outside the Revenue account and all expenses on renewals and replacements, which are not chargeable to Capital, should be met from this Fund. These suggestions are under consideration.

Principles applicable to Irrigation, etc., works.

97. Similarly in regard to projects for Irrigation, Navigation, Embankment and Drainage Works, the following rules are observed in deciding whether an item of expenditure should be charged to Capital or to Revenue account:—

(*a*) Capital bears all charges for the first construction and equipment of a project, as well as charges for maintenance on sections not opened for working and charges for such subsequent additions and improvements as may be sanctioned under rules by competent authority.

(*b*) Revenue bears all charges for maintenance and working expenses which embrace all expenditure for the working and upkeep of the project, as also for such renewals, replacements, additions, improvements or extensions, which under the rules in clauses (*c*) and (*d*) below are chargeable to the Revenue account.

(*c*) In the case of renewals and replacements of existing works, if the cost really represents an increase in the capital value of the system and exceeds the cost of the original work by Rs. 1,000, the cost of the new work should be divided between Capital and Revenue the portion debited to the latter account being the cost of the original work, which should be estimated if the actual cost is not known, and the balance charged to Capital. In other cases, the whole cost of the new work should be charged

to Revenue. Thus a renewal which does not represent a substantial improvement of the original work, but which is in all material essentials the same as the latter, although it may exceed the cost of that work by more than Rs. 1,000, should not be charged to Capital but to the Revenue account.

(*d*) When the construction estimate of a project for which a separate Capital account is kept, is closed, the expenditure on works of extensions will be charged thus:—

(*i*) Estimates exceeding Rs. 1,000, for (1) works which are in themselves directly remunerative, such as new distributaries, mills or works for increasing the canal discharge and (2) works which are necessary for the full development of a project, but which are not in themselves directly remunerative, shall be charged to the Capital account.

(*ii*) Estimates amounting to Rs. 1,000, or under shall be charged to the Revenue account.

(*iii*) All estimates for works which are neither remunerative in themselves nor considered necessary for the development of the project, shall be charged to the Revenue account.

Quasi-commercial projects.

98. The revenue expenditure of *quasi*-commercial projects is generally met from the ordinary revenues of the country but the capital expenditure is met mainly from the following sources :—

(*a*) Current surplus revenues or cash balances accruing from previous surpluses ;

(*b*) Any balances available from Savings Bank or other Deposits, and

(*c*) Sums borrowed in the open market.

Local Governments' powers of borrowing.

99. As to (*c*) above, large powers have now been conferred on Governors' provinces to raise loans required for their needs under the Local Government (Borrowing) Rules given in Appendix 6 to the Audit Code. Local Govern-

ments can thus raise loans for any of the following purposes :—

(*a*) to meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that—

(*i*) the proposed expenditure is so large that it cannot reasonably be met from current revenue; and

(*ii*) if the project appears to the Governor General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortization of the debt ;

(*b*) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from loan funds ;

(*c*) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity ;

(*d*) for the financing of the provincial loans account ; and

(*e*) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advances made by the Governor General in Council.

Chapter 10.

General remarks on important audit rules.

100. It is impossible, even in the most detailed rules, to provide instructions which will meet every possible case and thus some rules which Audit Officers have to apply have to be worded vaguely so as to cover a wide area. This chapter is intended to explain the intention of some of the most important audit rules.

101. Thus, one important rule in the old Audit Resolution stated that the sanction of the Secretary of State in Council is required to any expenditure exceeding Rs. 500 in any one case which is of an unusual nature or devoted to objects outside the ordinary work of administration or to any expenditure likely to involve at a later date expenditure beyond the powers of the Government of India. This rule was worded vaguely and its interpretation has given great trouble as it is not easy to decide what is "usual" or belongs to the "ordinary work of administration." As experience showed that the existing rule was unsatisfactory, it was decided to replace it by a set of principles which have received the label "Canons of financial propriety".

Canons of financial propriety.

102. One of the most important responsibilities of the Audit Department is to conduct audit with reference to the canons of the financial propriety reproduced below :—

(1) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

(2) Money borrowed on the security of allocated revenues should be expended on those objects only for which, as provided by rules made under the Act, money may be so borrowed. If the money is utilised on works which are not productive, arrangements should be made for the amortization of the debt.

(3) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

(4) Government revenues should not be utilised for the benefit of a particular person or section of the community unless—

(*i*) the amount of expenditure involved is insignificant, or

(*ii*) a claim for the amount could be enforced in a court of law, or

(*iii*) the expenditure is in pursuance of a recognised policy or custom.

(5) No authority should sanction any expenditure which is likely to involve at a later date expenditure beyond its own powers of sanction.

(6) The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that the allowances are not on the whole sources of profit to the recipients.

Before discussing the intention of these canons in detail, it is desirable to state why they do not appear in the new Audit Resolutions. The reasons are constitutional. The responsibility in respect of transferred subjects now devolves on the local Governments, and the Secretary of State did not consider it desirable to retain his control over such subjects to ensure the compliance of the canons. He has therefore left that duty in the hands of the new authorities, *i.e.*, the legislature acting through the Public Accounts Committee; and inasmuch as he came to that decision with regard to transferred subjects, he accepted the same principle with regard to reserved and central subjects also. The rule does not, therefore, take the form of requiring the sanction of the Secretary of State when any of these canons is infringed, and is not therefore embodied in the Audit Resolutions.

103. When an apparent breach of one of these canons is detected, it should be reported by the Audit Officer himself to the administrative authority concerned and, if the matter

be serious, at the same time to the local Government. If the correspondence confirms the Audit Officer in the opinion that there has been a breach he will report it to the local Government. The Finance Department can require the Audit Department to withdraw the objection on the promise that the matter will be placed before the Public Accounts Committee. The Public Accounts Committee and the legislature make their recommendations and it then rests with the Government to take them into consideration. The Audit Officer should, however, see that the action taken by Government is adequate and if he is of opinion that it is not, it is open to him to comment thereon in the next Audit Report.

104. The canons may now be dealt with in detail. The *first* canon requires the Audit Officer to see that there is no extravagance. This canon comes practically from an existing rule in the Civil Account Code (Article 91 slightly modified). The application of this canon will be explained later on.

The *second* canon deals with borrowing. This canon is quite new as the local Governments had no powers of borrowing in the past. It imposes a new duty on Audit Officers to see that borrowed money is not spent on objects the expenditure on which is intended to be met from current revenues. The rule refers to revenues allocated to local Governments under the Devolution Rules and states that money borrowed on the security of those revenues can only be spent on the objects specified in the local Government (Borrowing) Rules, and, that if expenditure met from such loans is on unproductive works, a sinking fund or other form of amortization should be formed for the eventual liquidation of the loan. It further requires that if after meeting the objects for which money had been borrowed there remains a surplus balance it should be utilised on objects for which money can be borrowed under the rules and not put back into the general balances of the province. The Secretary of State in his Financial Despatch No. 8, dated the 10th July 1922, has suggested that the rules regarding the creation of a sinking fund for the amortization of loans utilised on unproductive works should apply also to the Central Government.

The *third* canon was evolved some years ago when a proposal came up to the Government of India to grant the members of the Executive Council slightly improved rates of travelling allowance when they were travelling in their special carriages. They proposed to sanction the increased rates in pursuance of their general powers of dealing with travelling allowances but as a doubt was expressed as to the propriety of according sanction in such a case a reference was made to the Auditor General for a ruling as to whether it would require the sanction of the Secretary of State. The Auditor General held that whatever might be the position with regard to the travelling allowance generally, it was certainly incorrect in principle for an authority to pass an order which would be directly or indirectly to its own advantage. This is now accepted as a fundamental principle. It is to be noted, however, that if an order is of perfectly general application the order does not constitute a breach of the canon if the particular authority that passes that order is also benefited thereby.

Canon *four* emanated directly from an audit rule relating to unusual expenditure in the Main Audit Resolution. The point arose in connection with the polo grounds which were constructed at Delhi on the occasion of the King-Emperor's Durbar. No objection was raised to the initial expenditure, but when the Durbar was over it was proposed that Government should maintain those grounds as polo grounds. The Auditor General expressed the opinion that as the polo grounds would benefit merely the few people who would play polo thereon, the maintenance of the grounds should fall upon them and not upon Government.

Provisos are, however, necessary to make the rule practicable and exceptions have therefore been made for (*i*) insignificant sums, (*ii*) claims which could be enforced in a Court of Law and (*iii*) expenditure which is in pursuance of a recognised policy or custom.

The last proviso alone needs detailed explanation. Under British rule, with regard to expenditure on behalf of particular sections and communities numerous customs have been recognised and certain lines of policy have been

adopted. For instance, grants to hospitals or educational institutions or for the construction of public roads have always been recognised as permissible. On the other hand, a grant for the construction of a Hindu temple or a Muhammadan mosque is not covered by any recognised policy or custom.

Canon *five* is the same as Rule III (1) (*c*) of the Main Audit Resolution and was applied as an audit principle in the past. The following is a good example of a case falling under this rule. A local Government wished to create certain temporary appointments as an experimental measure with a view to the constitution of small areas within a district with a gazetted officer in charge of each. It was considered almost certain that the result of the experiment would be the introduction of the system permanently in that province. It was held then that it would probably involve at a later date expenditure beyond the powers of the Government of India and that the sanction of the Secretary of State should therefore be obtained in the first instance.

Canon *six* is based on Article 995 of the Civil Service Regulations, regarding travelling allowance and applies on the same principle to other compensatory allowances. The local Governments of Governors' provinces have now full authority to sanction compensatory allowances subject to the restriction contained in this canon. The rules framed by Government will thus require intelligent scrutiny on the part of Audit to ensure that there is no breach of this canon. Cases involving insignificant loss should however be ignored.

105. The application of the first canon is perhaps the most important phase of audit work. Government expects disbursing and controlling officers to see that there is no extravagance in the expenditure of the public money. The controlling officers are thus responsible that the expenditure is necessary and the rates are fair. It is the duty of the Audit Officer to see that the officers of the Government properly discharge their functions in this respect. He should devise means to bring to notice all important cases which indicate want of attention to economical considerations. All important sanctions must be scrutinised intelligently to see if the expenditure is necessary, and in doubtful cases the

papers leading to the sanction should be examined and the Finance Department should also be consulted. As proposals for new expenditure are also scrutinised by the Finance Department, it may sometimes happen that that Department will bring to the notice of the Audit Officer cases in which expenditure has been sanctioned which in the opinion of the Finance Department is unnecessary or extravagant. Breaches of this canon should be reported only after full consideration of all the circumstances of the case.

The controlling officer, with his intimate knowledge of the details of the work in question, is in a far better position than the Audit Officer to determine fair rates. At the same time it is necessary that the Audit Officer should not be wholly absolved from responsibility in this important branch of audit. There can be no doubt as to the wisdom of the distinction of the duties of the two classes of officers in this respect. The scrutiny of rates demands the exercise of great intelligence and care, and should not be entrusted to an ordinary auditor to be applied as a mechanical check. Individual abnormalities should, of course, be watched, but the institution from time to time of a comparative examination of the rates paid by various officers in the same or neighbouring localities may indicate cases in which the rates being abnormal, further enquiry may be desirable. Cases involving considerable sums should generally be selected. The assistance of the Finance Department may be invoked in obtaining reliable schedules of rates and other necessary information.

106. The extravagance noticed should, in the first instance, be brought to the notice of the controlling authority of the officer whose expenditure has been called in question. That officer will investigate the matter and will forward to the Audit Officer his opinion whether the expenditure is extravagant or not, with his reasons. The Audit Officer will then be in a position to determine whether there has been a breach of canon or not. In all important cases, the Finance Department should be consulted before making a formal report to Government.

107. The question of checking extravagance is of principal importance in connection with those Audit offices

which deal with the accounts for Works, Stores and Workshop accounts and the results of audit would be more valuable if more attention were paid to this branch of the work and less to the enormous volume of work arising from the application in audit of the rules contained in the various codes concerning amounts drawn by officers of Government in the shape of pay and allowances.

Grouping for the purpose of sanction.

108. Another extremely important point in the old Audit Resolution was the statement that, in determining the authority competent to sanction a work, a group of works which forms one project shall be considered as one work, and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project is within the powers of sanction of the lower authority. Though it has not been considered necessary to include this principle in the new Audit Resolutions, it is still in force and has been issued as an Audit Instruction.

109. It is very difficult to devise any general formula which will in each case decide the question whether two or more schemes or projects must be considered so connected as to form essentially one scheme or project. It was ruled in 1916, with the approval of the Secretary of State, that the following two tests should be applied :—

(1) Can the expenditure on any local area or in respect of one set of conditions be confined thereto or must it lead to further outlay ?

(2) Is there a central idea underlying a scheme for one establishment which it is intended to apply to other establishments ?

For the practical application of these tests, the following instructions were also issued with the approval of the Secretary of State for the guidance of the Audit Officers :—

(1) In dealing with specific cases, the initial presumption should be in favour of a local Government's contention that the particular scheme does not involve further expenditure which would require the sanction of higher authority, and the Audit Officer should no

traverse this contention without what he deems to be cogent evidence to the contrary.

(2) If an Audit Officer holds that although a scheme does not require the Secretary of State's sanction by reason of its own magnitude, but ought to be submitted to him because it is likely to lead to a larger scheme, he is not entitled to require that the first scheme be held up until the details of the larger scheme have been worked out. All he is entitled to say is that the first scheme requires the Secretary of State's previous sanction by reason of the fact that the expenditure which it involves cannot really be kept within the limit of the financial powers of the local Government, but will lead later on to larger, perhaps much larger, outlay.

(3) Where a local Government has made provisional arrangements pending the introduction of a larger and more satisfactory scheme, these arrangements must be dealt with by themselves They are not a part of the larger scheme, but merely a substitute therefor.

110. In 1920, the Government of India made an amendment with the approval of the Secretary of State in the Book of Financial Powers to the effect that in order to determine whether a particular item is or is not part of a scheme, the test is whether the Government is ready to go on with the scheme even though sanction is refused to that item.

111. In this connection the study of some of the previous decisions on the subject will also be helpful in arriving at reasonable conclusions and some of them are, therefore, quoted below :—

(i) In connection with the Dacca Capital Project, the Secretary of State, in April 1909, expressed himself to the following effect :—

"The chief question which I am called upon to decide is whether the various buildings required for the establishment at Dacca of the Head Quarters of the Province of Eastern

Bengal and Assam are to be regarded as forming one Project. The decision must clearly depend to a considerable extent on the views expressed on previous occasions by the Secretary of State on similar questions. There have been two occasions on which the Secretary of State has been called upon to consider whether separate and distinct buildings required for the purpose of an administrative improvement are to be regarded as forming a single project. The action taken in the two cases was as follows:—

(*a*) In 1876, the Government of India proposed to spend Rs. 15,000 on improving the sanitation and water supply of Simla, erecting quarters for officers and clerks and other measures and this expenditure was sanctioned by the Secretary of State. In the following year the Government of India submitted a statement showing that in addition to the items already sanctioned they contemplated the construction of a new house for the Viceroy, that they had spent Rs. 7,000 in acquiring a site, and that pending the completion of the designs and estimates they had ordered improvements costing Rs. 10,000 in the house which His Excellency then occupied. In his reply of the 7th June 1877, No. 29-Public Works, the Marquess of Salisbury decided that these expenses or any others which it might be proposed to incur at Simla for the purpose of making it more suitable as a Summer Residence for the Viceroy and his officers must be looked upon as belonging to the same work as that for which expenditure has already been sanctioned, and that it would, therefore, be necessary before the proposed additional works were actually commenced that estimates for their constructions should be sanctioned in the regular manner and approved by Her Majesty's Government. The Earl of Kimberley's concurrence in the views of the Marquess of Salisbury was clearly and emphatically expressed in his Despatch No. 3-Public Works, dated 12th February 1885.

(b) In 1907, as you are aware, I decided that various items of expenditure incurred for the acquisition of certain sites and construction of buildings to provide additional accommodation for the Viceregal Establishments at Calcutta must be regarded for purposes of sanction as one scheme, although the several buildings were dealt with by you as separate schemes.

Having regard to the precedents I am unable to decide otherwise than in the sense suggested by the Examiner, the question now under consideration, but I may observe that even if no precedents were available I should be of opinion on general grounds of reasonableness that the work included in the building programme required for the establishment of a new Provincial Head Quarters must be regarded for the purpose of Financial sanction as forming one project."

(ii) The Secretary of State in his Railway Despatch No. 48 of 1913 accepted the proposal of the Government of India which may be summarised thus "The Railway "Board proposes that interdependence should be the determining factor in deciding whether two or more works "must be regarded as forming a group of works for purposes "of sanction. We agree that this is the principle which "should ordinarily be adopted .... We would add that in "emphasising the importance of the principle of interdependence as the test to be ordinarily applied we do not "desire rigidly to fetter the discretion of audit authorities as "there may be circumstances in which grouping may be held "necessary with reference to financial considerations even "though the test of interdependence is not clearly satisfied."

Thus, at least in the case of Railway works, the interdependence of works has been regarded as the determining factor. It has therefore to be considered in each case whether or not a particular work is complete in itself for the purpose it is intended to serve, independently of the construction of another work of the same or a different class, whether in juxtaposition to it or separated from it by a distance.

(iii) In 1914, in connection with the transfer of the headquarters of the Sibsagar District from Sibsagar to Jorhat

and the consequent expenditure on several new works in the new district headquarters, the cost of which if grouped together would have exceeded the powers of sanction of the Government of India, the Auditor General expressed his opinion as under :—

"In this particular case, I do not think that mere coincidence of time and space necessarily brings all works within one project. There must be a link of purpose as well as of time and space."

(iv) The Secretary of State decided that the following were to be considered as schemes for purpose of sanction :—

(1) Various improvements in the accommodation for the Viceroy's entourage at Calcutta carried out at the same time.

(2) Revisions of establishments for the offices of—

(*i*) The Chief Engineer and Secretary.

(*ii*) The Examiner, Public Works Accounts.

(*iii*) The Circle, Divisional and Sub-divisional Offices necessitated by the creation of the new province of Eastern Bengal and Assam.

(v) The Auditor General treated the following as "schemes" for the purpose of sanction and these decisions were accepted without comment by the Secretary of State :—

(*i*) The changes accepted by the local Government on the report of a Committee to enquire into the methods of work, the rates of pay and the adequacy of the subordinate establishments in all Government offices in the United Provinces.

(*ii*) The increase in cost, over that shown in the original proposition statement for the estimated cost of effecting all the changes effected in the United Provinces as a result of the Report of the Police Commission, when all those changes had been carried out and the actual cost could be stated.

(vi) The Royal Decentralization Commission in paragraph 132 of their report stated "The question to be asked in such a case is whether expenditure in one or two districts

could stop there or whether it must inevitably lead to outlay elsewhere. In the former case the expenditure immediately contemplated should be considered by itself, in the latter, the financial result of its general application must be taken into account."

112. So far, expenditure incurred at or about the same time has been considered. But expenditure which will be incurred at a comparatively distant date also has to be dealt with. I am of opinion that such expenditure need not be included in the cost of a scheme, unless the object of the expenditure is a direct and inevitable consequence of the expenditure on those parts of the scheme which are to be undertaken at or about the same time, which expenditure has to be included in the cost of the scheme for the purpose of sanction.

113. Inasmuch as the power of sanction depends upon the amount of an estimate there must be sometimes a temptation to keep an estimate within the powers of sanction of a subordinate authority by omitting from it a few of the less important features. It is important, then, to have some working rule as to the subsidiary works which must be included in the project estimate of a large scheme. This rule may be expressed thus :—"A project estimate for a scheme should contain estimates of all those subsidiary works which are essential in order that the scheme may fulfil the purpose for which it was undertaken."

It is also desirable that it should contain estimates of all those works which are essential in order that the scheme may meet the probable immediate demand for the service to render which it is undertaken. But Audit cannot insist on the acceptance of the latter proposition in the framing of estimates while it can in respect of the former.

Though it is difficult to formulate these rules in words it is easy to show their application to concrete instances. If a railway is being constructed it must have at least one line of rails, and some stations, engines and rolling stock and the cost of these must be included in the project estimate. To meet the probable immediate demand it might be preferable to have broad gauge line and stations every five miles and if

the money were available it would be more economical to build the line on that scale at once. But if it be decided to build the railway on the metre gauge with stations every ten miles, and if thereby the estimated cost be brought within the powers of sanction of a lower sanctioning authority, Audit can raise no objection.

114. It is, of course, understood that, if any one item of a scheme requires the sanction of higher authority, that item should not be given effect to before sanction to it is obtained. In determining whether any other portion of the scheme may be put in hand prior to receipt of such sanction, due regard must be paid to the provisions of canon 5.

Chapter 11.

The spirit of audit and of interpretation.

115. There is another important class of orders which indicate the spirit in which the Audit Officer should carry out his duties. Under Article 15 of the Audit Code the Accountant General is bound to ascertain that rules or orders are obeyed. As a rule, trifling matters which are of no consequence to the finances of the State should not be given much attention (see Article 858 of the Audit Code). The prescribed checks should be observed in spirit and not in the letter as opposed to the spirit (see Article 134 of the Audit Code). To save time and trouble over petty sums, petty objections should ordinarily be waived as required in Article 156 of the Audit Code. It is of greater importance to see that the general principle of legitimate finance are borne in mind not only by disbursing officers but also by sanctioning authorities and that audit is conducted so as not merely to criticise the acts of several authorities but also to assist them, in protecting the interests of the tax-payer, developing revenue and effecting economies in expenditure wherever possible. The spirit which should animate Audit was explained in paragraph 77 of the first despatch on Reforms from which an extract is given in paragraph 83. The spirit of Audit.

116. In this connection it will be interesting to indicate how the present rule (Article 15 of the Audit Code) was evolved. The old rule in the Civil Account Code, Volume II, 7th Edition, was Article 1635 which stated that an Accountant General is bound to ascertain that rules and orders are exactly obeyed in every instance and to check every departure from them, however apparently trifling. On the other hand, in the Public Works Department Code, Vol. II, 7th Edition, paragraph 1442, there was a rule that an Examiner, while careful to prevent unnecessary expense and irregularity, should not be too precise in trifling matters which are of no importance to the finances of the State, but

which may be made very troublesome to those who have to account for them. It was felt that the Public Works rule was more suitable as the Civil Account Code rule was unduly meticulous. This view had been expressed thus :—

"The question arises, 'what is the true purpose of an audit establishment'? Some Audit Officers seem to think that they exist to apply as fully and minutely as possible certain rules laid down for their guidance. Such a view does not, however, envisage the fundamental object of an Audit Department, which is to save the tax-payer's money by seeing that expenditure is not irregularly and wastefully incurred.

"For such a purpose it is necessary, of course, that rules of procedure should be laid down but, if these rules are to be regarded as ends in themselves and not merely as means to an end, the inevitable tendency is for Audit Officers to insist rigidly on relatively petty matters and thus to frustrate the real object of their existence. For it is clear that if a lot of time and trouble is taken up, and friction probably engendered, over expenditure of a very trifling character in regard to which there has been only a very technical, as opposed to a substantial, irregularity, the State and therefore the tax-payers, are losers. That is, it is better often to pass some not fully regularized expenditure of perhaps a few annas than to embark on lengthy controversy in respect thereto. Further, human capacity being what it is, it is certain that undue insistence on petty or technical details gives the Audit Officers less time to investigate really important cases in which their intervention is desirable."

Accordingly the Secretary of State was approached and with his approval the Audit Officers were authorised to waive petty objections to the extent indicated in Article 989 (as introduced by the 2nd list of corrections) of the Civil Account Code, Volume II, 7th Edition, so as to save time and trouble over petty sums. This article has, in its amended form, been incorporated in clauses (1) to (3) of Article 156 of the Audit Code.

117. In the audit of sanctions to expenditure and in the scrutiny of rules and orders the following guiding principles should be observed by Audit Officers:—

(*i*) If the sanctioning authority is granted full powers in respect of a certain class of expenditure, a sanction accorded under those powers can be challenged by Audit only under the canons of financial propriety.

(*ii*) If it is granted powers which may be exercised provided due regard is paid to certain criteria which are expressed in a general form, sanctions accorded under those powers can be challenged by Audit—

(1) if the disregard of the criteria is so serious as to make the sanction perverse, or

(2) if the facts of the case are such as to make the Audit authority confident that one or more of the criteria have been disregarded.

(*iii*) If it is granted powers which are expressed in precise terms, the Audit Officer is bound to ascertain that the order defining its powers is exactly obeyed in every instance.

The canons of financial propriety have already been described in chapter 10.

118. In the scrutiny of accounts and vouchers the following procedure should be followed. The actual person performing the original audit, who will be usually a clerk, must apply the rules strictly. It cannot be expected that the clerks on comparatively low pay who perform the detailed audit will have the judgment or breadth of view necessary to exercise the discretionary powers indicated above. But once the detailed audit has been strictly carried out and every infraction of rule brought to light, it will then be for the competent Audit Officer to exercise the discretion vested in him under the orders in Article 156 of the Audit Code and to determine the cases in which the objections which might be raised under the strict letter of the law can be waived.

But if the objection is of such a nature that it cannot be waived under the rule quoted above, it is then the duty of

the Audit Officer to press it quietly but firmly. The more important the objection the more necessary it is to couch it in language which shall be courteous and impersonal. In carrying this audit, the Audit Officer should remember that exceptional cases may arise in which it is desirable to relax formalities which they would follow strictly in ordinary cases. Thus in one case on retirement an officer went to a far country and sent bills for the balance of pay due to him. These bills were stamped with stamps of that country and the officer did not endorse on the bills the fact that he wished the bills to be made payable to a certain bank although he had left a letter in which he had expressed the wish that the amount of his bills should be paid over to that bank. In view of the special circumstances of the case it was held that endorsement on the bills themselves might have been dispensed with, and that the value of the requisite Indian stamps might have been deducted from the bill and the stamps purchased therewith and affixed. Audit Officers must remember, however, that circumstances must be really exceptional before rules are relaxed, and even then the relaxation must be of formalities rather than of essentials.

Method of interpretation of orders.

119. The Audit Officer must remember that his fundamental duty is to assist Government. He is entrusted with responsible but unpleasant functions and he must remember that he does not assist Government if he raises in the minds of other Government servants the feeling that he is far more willing to apply strict audit rules than to assist in other ways. Whenever, therefore, the Government invites his assistance he should give it with the utmost willingness and to the best of his ability. Whenever he has to inspect an office he should not only point out mistakes but also indicate how they may be rectified and in future avoided. He must educate as well as investigate.

Interpretation of rules.

120. Considerable experience is necessary before an officer can become expert in interpreting the rules which he has to apply in Audit. These are found mainly in a number of codes which have been framed by the crystalisation of departmental case-law over a long period of years. With each new edition out-of-date orders are supposed to be removed and important orders of permanent interest, which

have been passed since the last edition, introduced, ephemeral orders being neglected.

It will also be noticed that Indian codes rarely contain any reference to the orders on which they are based. This has been done deliberately because it is felt that decision in audit matters should be based upon the actual words used in the codes.

121. At the same time Audit Officers are enjoined to follow the spirit rather than the letter of a rule when these two appear to conflict. Thus it is important for them to try to understand the real intention of the rules which they have to apply. The framing of rules to express an intention clearly is a difficult matter and if Audit Officers find that when, as applied to a particular case, the wording of the rule in a code does not seem to bear out the intention of the rule, it is desirable that they should take steps to bring the case to notice so that the wording of the rule may be brought more into accordance with the intention. This is all the more necessary because many Audit Officers have to apply the same rule and some of these may not have the same intimate knowledge as others of the intention of the authority, so that it is important that the letter of the rule should convey its spirit as clearly and as accurately as possible.

122. Again, it sometimes happens that two rules seem to contradict each other when applied to a particular case, and there is no indication which rule should be applied. In that event if one rule is fundamental and the other is of less importance, then the fundamental rule should prevail. Here again, however, for the reasons indicated above it may be desirable to bring the apparent conflict to notice.

123. In the application of rules to concrete cases an Audit Officer may find :—

(1) That the application of the rule both in letter and in spirit is clear. In such cases it is for him to give his decision. If there are special reasons which in any case render the decision inequitable it is for the administrative authorities and not for the Audit Officer to move in the matter.

(2) That, even though he is confident as to the correct interpretation of the rules, he may think that the wording might be improved. In that event he should give his decision and should suggest a revision of the code to remove the apparent discrepancy between the spirit and the letter of a rule, or between two conflicting rules.

(3) That there is a real difficulty in interpretation and that he cannot decide how to apply the rules to that case. In that event he should refer the matter to the Auditor General for a decision.

124. A young officer may enquire how he is to ascertain the intention of any rule otherwise than by a careful interpretation of the words. Such intention can be ascertained authoritatively only by reference to the discussions leading up to the framing of the rule, *i.e.*, to the files of the Government. Such files, of course, are not ordinarily accessible to Audit Officers. There is, however, in every Audit office an atmosphere of experience and also records of cases in which the underlying intention of the rule has been discussed. Valuable knowledge can be obtained from such experience and records and should be stored carefully in the minds of Audit Officers; but it is necessary to warn them against an uneasy desire to look beyond the authorised codes when deciding each and every case. An Audit Officer should not look to find, outside regulations, a ruling which shall form an exact precedent for every case with which he has to deal and, whatever guidance he may in fact obtain elsewhere, the decisions at which he ultimately arrives should be such as he is prepared to justify on the regulations as they stand without appealing to external authority.

If in any case it becomes necessary for an Audit Officer to trace the genesis of a particular rule contained in a code, he should search the previous editions to ascertain when the rule was first introduced.

125. Another point to remember in interpreting is that it is often difficult to ascertain the intention of the sanction-

ing authority from the terms of the order in which that sanction is conveyed unless the Audit Officer has also before him the letter asking for the sanction. It will then be easy to see what information was before the sanctioning authority when he conveyed the sanction and that knowledge is often of the utmost use in determining the exact meaning of the sanction conveyed.

126. Another difficulty arises in the interpretation of orders from the use of "etc." in such orders. The authority to whom power is conveyed by such an order may be anxious to interpret that order in the widest possible sense. Such an interpretation, however, is not permissible. Etc. in such a case means similar cases of a like nature. It cannot be used to cover other instances of a different nature.

Chapter 12.

Relations between the old codes and the new rules framed under the Act.

127. It must be understood in the first place that the Government of India Act did not originally contain any recognition of the local Government. The authorities that were recognised by the Statute were the Houses of Parliament, the Secretary of State, the Governor General in Council and the Governor in Council. The main alteration that has taken place in the Act has been the statutory recognition of a new authority—the local Government. All the orders which will be binding in future upon this new statutory authority and the officers subordinate to that authority must arise out of the statute itself. The old Civil Account Code, Public Works Department Code, Civil Service Regulations, Forest Code and other codes had no statutory authority whatever, and it has, therefore, been necessary to evolve rules which would have this authority. The new sections added to the Act provide for the issue of the several new rules that have come into existence.

128. The sections of the Act from which the new rules originate, the nature of the new rules and the authorities which may sanction these rules are indicated briefly below :—

Section 19A enables rules to be framed whereby the Secretary of State divests himself of all responsibility for transferred subjects. These rules have been issued by the Houses of Parliament.

The proviso to Section 21 gives the Secretary of State in Council the authority in pursuance of which the Central Audit Resolution and the Provincial (Reserved) Audit Resolution have been issued.

Under Section 29A, an order in the Privy Council has been issued containing the rules regulating the duties and powers of the High Commissioner for India.

Under Section 30 (*1a*), the Local Government (Borrowing) Rules were issued by the Houses of Parliament.

Under Sections 45A and 129A, have been issued the Devolution Rules by the Houses of Parliament. From the Devolution Rules come three sets of rules. From Rule 16 we have the Treasury Orders sanctioned by the Secretary of State in Council; then under Rule 37(*e*) of the Devolution Rules will emanate what may be called the Financial Rules to be issued by the Finance Department of each local Government, and Rule 46 of the Devolution Rules enables the Governor General in Council to issue what are called the Agency Rules, inasmuch as the relation between the Governor General in Council and the local Government in its administration of a central subject will be that of Agent and Principal, and the relative position of a Principal and an Agent necessarily carries with it the right of the Principal to issue orders to the Agent as to the manner in which the latter shall perform these duties. The Governor General in Council has issued an order that the rules in the Civil Account Code regarding the procedure to be followed (*i*) by Government servants in paying into treasuries or into any branch of the Imperial Bank of India, moneys not derived from sources of provincial revenue, and by the treasuries or the Bank in receiving such moneys and granting receipts for them, and (*ii*) by Government servants in withdrawing funds from the public account for expenditure upon central subjects, are to be regarded as rules issued under the Treasury Orders.

The next section of the Statute is 80 A under which the Scheduled Taxes rules have been issued by the Houses of Parliament. Under Section 96B (*2*) of the Act, the Classification, Discipline and Conduct Rules as well as the Fundamental Rules have been issued by the Secretary of State in Council. Under Rule 74 of the Fundamental Rules the leave procedure rules have been issued by the Governor General in Council, local Governments and the Auditor General.

Under Section 96B (*3*) of the Act pension rules will eventually be issued by the Secretary of State in Council and this again will enable the Governor General in Council, local Governments and the Auditor General to issue the pension procedure rules.

Under Section 96D (*1*) of the Act, the Secretary of State in Council has framed the Auditor General's Rules. Chapter IV of these rules enables the Auditor General to issue what may be called Audit Instructions, Audit and Account Codes, and inasmuch as he is the administrative head of the Indian Audit Department he can issue administrative rules as well.

129. It is desirable to give at this point a brief account of the manner in which the old codes have been or are being dealt in order to indicate how the rules in these codes themselves, or in the new compilations which arere placing them, emanate from the Act.

The substantive rules contained in the Civil Service Regulations are to be replaced by the Fundamental Rules which have already been issued, and by the Pension Rules which have to be approved by the Secretary of State. The procedure rules of the Civil Service Regulations find a place in the leave procedure rules, or will find a place in the pension procedure rules. Those rules in the Civil Service Regulations which are in the nature of audit instructions have come into the Audit Instructions which have been issued under the Auditor General's Rules.

As regards the Civil Account Code, Volumes I and II (eighth edition) of that Code deal with maintenance of accounts and the procedure to be followed, by officers dealing with treasuries and by Treasury Officers. Some of the rules have come into the Treasury Orders framed under Rule 16 of the Devolution Rules, some are rules of account which have to be issued by the Auditor General, and some will find a place in the subsidiary rules which local Governments have to issue under the Treasury Orders, while the rest are financial rules which local Governments have to issue under Rule 37(*e*) of the Devolution Rules.

The old Volume II (7th edition) of the Civil Account Code has now been replaced by the Audit Code and the Account Code which have been issued by the Auditor General.

In regard to the Public Works Department Code, the old Volumes of the Code (edition of 1908) have been split up and

the administrative code (Public Works Department Code, 10th edition) was issued some time ago. The accounts rules have been separated and incorporated in the new Codes issued by the Auditor General, *viz.*, the Public Works Account Code, Audit Code and Account Code. Most of the rules in the Public Works Account Code are accounts rules which can be issued by the Auditor General, some can be issued as subsidiary rules under the Treasury Orders and others have to be issued as Financial Rules by local Governments under Rule 37(*e*) of the Devolution Rules. The rules in the Public Works Department Code (10th edition) and the Forest Department Code consist of administrative rules, rules which may be issued as financial rules under Rule 37(*e*) of the Devolution Rules, and Delegations of expenditure powers and possibly also subsidiary rules which may be issued under the Treasury Orders. The Civil Account Code, the Public Works Department Code and the Forest Department Code form such convenient compilations that there is little doubt that they will remain in this form although they contain rules emanating from so many different authorities. But as each local Government will be able to issue its own rules separate codes for each province may gradually be compiled.

130. In the preceding paragraph it was stated that the Auditor General would issue "Audit Instructions" under Rule 9 of the Auditor General's Rules. If the old and the new Audit Resolutions are compared it will be found that some rules in the old have been omitted from the new Resolutions though from a strict audit point of view the omitted rules continue to be necessary. To take an illustration, *Note 3* under Rule III(2) of the Main Audit Resolution contained an order to the effect that excesses over scales might be admitted by Audit Officers under certain circumstances. These orders were issued with the sanction of the Secretary of State, and they will be as necessary in the future as they were in the past. It is therefore intended that the Auditor General should issue such orders separately as "Audit Instructions," as they are really of the nature of interpretations which the Auditor General is authorised to give. Such rules exist not only in the Audit Resolutions,

but also in the Civil Service Regulations, and in other codes such as the Public Works and Forest Department Codes. The intention is that these codes should not in future contain any rules indicating when reference to the Secretary of State is necessary. It is in accordance with this principle that Rule IV of the Main Audit Resolution has been omitted from the new Resolutions. Further with regard to transferred subjects the powers of local Governments and of the Secretary of State are fixed in Statutory Rules, and additional powers such as are conferred by these rules cannot be given by the Secretary of State in future under executive orders. To avoid all difficulty, therefore, it has been decided that such orders which are of obvious necessity and which had been sanctioned under the old regime by the Secretary of State should be issued as "Audit Instructions." Besides these orders, these instructions will also contain for the guidance of Audit Officers, interpretations of particular rules or orders in the new compilations which require elucidation.

Chapter 13.

The structure of Audit Offices.

131. Government audit in India is conducted in four classes of offices, *viz.*, the civil offices which audit Civil, Public Works and Forest expenditure, and the Railway, Posts and Telegraphs and Military offices which audit the expenditure of those departments respectively. **Audit offices.**

132. Military audit is conducted by the Military Accounts Department, while officers of the Indian Audit and Accounts Service man the Civil, Railway and Posts and Telegraphs Audit offices. The Auditor General is the final audit authority in India in the military as well as in the other branches of audit work, but he has no administrative relationship with the Military Accounts Department, whereas he is the head, under the administrative control of the Finance Department of the Government of India, of the Indian Audit Department.

133. As this manual is intended primarily for the use of the Indian Audit Department it does not contain any details of the work done in Military Account offices.

134. The Civil Audit offices are 12 in number. There is one in each province, under Accountants General in Bengal, Bombay, Madras, Punjab, United Provinces, Bihar and Orissa, Burma and in the Central Provinces and under a Comptroller in Assam. There is also an Accountant General, Central Revenues, who audits the expenditure of the Central Government, of the minor administrations such as Coorg and Ajmer-Merwara, and of the treasuries under the Foreign Department of the Government of India. There is a separate Audit office for the audit of expenditure of the Delhi Province which is in charge of the Deputy Accountant General, Central Revenues, who audits also all bills of pay and allowances of the offices of the Government of India, stationed at Simla and Delhi. There is also an Audit office for the Indian Stores Department. **Civil.**

135. There are thirteen important railways in India. Ten of these belong to the State, of which three are worked **Railway.**

by the State itself and seven by Companies. The other three belong to Companies who also work small lines belonging to the State.* The audit work on the railways worked by the State is conducted entirely by officers of Indian Audit and Accounts Service. On the lines worked by Companies the audit is carried out by the Companies' officers, but the interests of the State and of the Company do not always coincide, and so it is necessary to have an officer of the Indian Audit and Accounts Service with a small office attached to each railway to check the audit in certain respects. Thus there are three offices of Chief Auditors of State Railways, and ten offices of Government Examiners.

There are also two offices for dealing with construction work, *viz.*, Audit office, Khyber Railway Construction and Audit office, Delhi (New Capital) Railway Works. There is also the Central Office of the Accountant General for Railways.

Posts and Telegraphs.

136. The audit offices under the Accountant General, Posts and Telegraphs, number six. There are four postal offices—at Calcutta, Nagpur, Delhi, and Madras—and two telegraph offices at Calcutta, one for ordinary audit and one to check the telegraph receipts, of which however, only a small portion is checked.

Accountant General for Railways, an original audit officer.

137. The Accountant General for Railways is an original Audit Officer, while the Accountant General, Posts and Telegraphs, is not. The reason for this is that any order issued by the Railway Board carries the authority of the Government of India. But the rules determining which orders the Board can issue of their own motion, and which only after consultation with other departments of the Government of India, are very complicated, and the duty is imposed upon the Accountant General of auditing the sanctions issued by the Railway Board. No such duty is imposed upon the Accountant General, Posts and Telegraphs.

The audit of all sanctions to expenditure (excluding those relating to Railways and Military) is, however, conducted under the immediate supervision of the Auditor General by an officer designated the Auditor of Government of India Sanctions.

* The connection of Companies with Indian railways is described briefly in paragraphs 270 to 272 below.

138. The Auditor General is the final audit authority in India, is responsible for the efficiency of the audit of expenditure throughout India, and has authority to frame rules in all matters pertaining to audit. In any case in which an Audit Officer holds that the sanction of the Secretary of State is requisite, the Government of India and provincial Governments have the right of appeal to the Auditor General, if they consider the views of the original Audit Officer to be incorrect. Auditor General—final audit authority.

He also checks the work of the Audit Officers through inspections of their offices carried out by his two civil Deputy Auditors General. The primary duty of these officers is the inspection of each Civil and Posts and Telegraphs Audit office, but they occasionally inspect Railway Audit offices to see that the general system of account and audit is correct. The detailed inspection of Railway and Military Audit offices is entrusted to departmental inspecting officers who are practically Railway and Military Deputy Auditors General. There is also a Deputy Auditor General for inspection of Military Account offices working under the Auditor General who carries out a test check of all work done in those offices. His inspection.

Inasmuch as the Auditor General is not an original Audit Officer he has no direct means of knowing that the sanction of the Secretary of State is asked for whenever necessary. All the sanctions accorded by the Government of India are now audited under his supervision by the Auditor of Government of India Sanctions. In the course of this audit, it is seen in particular that the sanction of the Secretary of State is obtained where necessary. Similarly Accountants General, while auditing the sanctions of local Governments, see that items requiring Secretary of State's sanction are not sanctioned by local Governments. In auditing the expenditure, the Accountants General further see that the actual expenditure does not exceed the sanctions of the Government of India or of local Governments to such an extent as to require Secretary of State's sanction. The Deputy Auditor General—Inspection, while inspecting an Audit office satisfies himself that the Audit Officer has carried out this scrutiny properly.

The Deputy Auditors General also see that audit is conducted with reference to the canons of financial propriety and that the Audit Officers devote more of their time in looking into the manner in which the various executive officers are undertaking their more important financial responsibilities.

Distribution of audit work in Civil offices.

139. In a Civil Audit office the actual audit work is carried on in various sections. Bills payable at headquarters are usually audited before payment: these, then, are dealt with usually in a separate Pre-audit Department. Bills paid elsewhere are paid before audit, and come from the treasuries into the Treasury Audit Department. There are usually separate sections for the audit of certain classes of bills, such as those of gazetted officers and of other officers whom the local Government permit to be treated like gazetted officers; those relating to the Forest Department, pensions, deposits, military police and marine bills. Such bills, after check with the corresponding entries in the lists of payments, are sent to those sections for audit. All other bills are audited in the Treasury Audit Department. In most offices each auditor in that department is responsible for the audit of all or of some of the bills audited in that department coming from one or more districts and for the compilation of all the bills of those districts whether audited by him or not. In Lahore, the experiment was tried of having separate sections for the audit of pay bills of non-gazetted staff, travelling allowance, and contingent bills and for classified abstracts, but the experiment was unsuccessful and had to be abandoned.

After audit in the various sections the bills are sent to the Treasury Audit Department for entry in the Classified Abstract which is the first step in the compilation of the accounts. This is unnecessary in Madras, as the treasuries there submit their accounts in the form of the Classified Abstract.

140. The officers of the Public Works Department still pay all bills for work done and submit monthly accounts to the Audit offices. These are received and audited in the Works Audit sections and are then passed on to the Compilation Department for incorporation in the Detail Book.

141. In a Posts and Telegraph Audit Office, all bills and returns are first received in the Postal Account or the Telegraph Audit section, as the case may be, and are checked with the cash accounts to see that the correct amounts (debits or credits) are entered in the latter. They are then taken up for detailed audit and record of audit, with the exception of certain specified classes of bills such as those of gazetted officers and works bills, which are sent for audit to special sections of the Audit office. Similarly, Money Order and Savings Bank returns (which correspond to the 'Bills and Deposits' returns of the civil treasuries) are transferred to the respective branches of the Audit office. Passage of bills through a Posts and Telegraphs Audit office.

A separate Pre-Audit section also exists, as in Civil Audit offices, for the disposal of bills payable at head-quarters.

In postal audit, Classified Abstracts are prepared in the Audit office from the accounts and schedules submitted by the post offices. In the Telegraph Department, however, the accounts are received ready classified in what is known as 'the Primary Abstract.'

142. The audit of all expenditure on open lines of railways is carried out before the expenditure is incurred. There are separate sections for different classes of expenditure and the bills on receipt in the office are sent to the sections concerned for audit. After audit they are entered into an abstract of bills passed. From this abstract the entries are made in the Cash Book and the bills then made over to the cashier for payment. From the Cash Book the payments are carried into the journal, and thence into the Capital and Revenue Ledgers, from which the monthly accounts are prepared. Passage of bills through a Railway Audit office.

Expenditure on lines under construction, however, is audited after payment, and the accounts of such expenditure are compiled in the divisions and sent into the railway account office for audit and for incorporation into the accounts.

There is also a separate branch of the office for the audit of the receipts. Here there are three main sections—Coaching, Goods and Booking. The accounts on receipt are sent into the audit section concerned, *viz.*, Goods and Coaching, and then into the Booking section where the accounts are finally compiled.

Chapter 14.

Correspondence.

143. Correspondence bulks so largely in the work of an account office that a few hints on this subject may be not without value—

(1) The advice given in paragraph 118 may be reiterated that correspondence regarding objections must be courteous and impersonal.

(2) Reminders must be issued at regular intervals if answers are not received in due course. This must not be treated, however, merely as routine work. If reasonable time is allowed for a reply the receipt of a reminder is a reflection upon the working of an office, and, if two or three reminders fail to elicit a reply, it may be presumed that there is something wrong in the office at fault. The head of that office should then be addressed personally, and, if that action fails to elicit a reply, the matter should be reported personally to that officer's immediate official superior.

(3) In the same way, it is not sufficient merely to enter in successive statements of items placed under objection items of Public Works expenditure which have to be placed under objection for want of an estimate or for some other reason. As soon as the delay becomes so serious as to raise a presumption that it is due to defective work in the office of the Executive Engineer the matter should be reported by special letter to the Superintending Engineer or to the local Government.

PART II.

A summary of the methods of audit.

Chapter 15.

Introductory.

144. The bills received in Audit offices fall into the following categories:—

(1) Those concerning payments to Government servants, *e. g.*, for pay, travelling allowances and pensions;

(2) Those made to other outside persons or bodies—such as payments for contingencies, supplies and services, grants-in-aid, or for work done.

Special branches of audit which will also have to be discussed briefly are those relating to the check of railway and telegraph receipts, workshop and store accounts and, in the Postal Audit offices, to money order and savings banks accounts.

Chapter 16.

Remuneration of Gazetted Officers and of Establishment.

Pay Bill.

145. A pay bill is the descriptive name given to the bill drawn for pay or leave salary of gazetted or non-gazetted Government servants.

The essential points in the audit of such bills are to check—

(*a*) the title of the officer to the remuneration drawn by or for him;

(*b*) in the case of officers whose remuneration is drawn for them, that they receive such remuneration.

Gazetted officers' pay bills.

146. Each gazetted officer is permitted to draw his pay month by month on a separate bill. Some non-gazetted officers (*e.g.*, Tehsildars) who belong to establishments fixed with reference to the requirements of a whole province, are also allowed to draw their pay on separate bills. The form of the bill needs little description. The essential details are the same as those contained in the authority (called pay slip) issued to him by the Audit Officer (*vide* the concluding portion of paragraph 147).

A gazetted officer is so called because the orders intimating any change in his posting or status or the grant of leave to him are contained in the Government Gazette.

Audit of Gazetted Officers' pay bills.

147. The system of audit adopted for such bills in order to check the title to the remuneration drawn is as follows:—

All payments are recorded in an audit register in which one or two folios are allotted to each officer. The main features of this register are two sets of cages, in one of which is entered the emoluments which may be drawn by the officer as varied from time to time by each order published in the Government Gazette or otherwise communicated and in the other are recorded the amounts drawn by him month by month. There are subsidiary cages for the record of the—

(1) Orders authorising each alteration of emoluments.

(2) Particulars of the various posts held by the officer or of any leave granted to him.

(3) Explanations of (i) peculiar payments which would include any payments not immediately identifiable by reference to the entry in the emoluments column and (ii) broken periods for which emoluments are paid at different rates.

(4) Emoluments exempted from income tax.

(5) Particulars of objections raised.

It is apparent that the most important part of the audit is the record of each entry in the cages for emoluments permissible. Each alteration must be based on an order published in the Government Gazette or otherwise communicated, and the various audit rules have to be applied carefully in determining the emoluments permissible in accordance with the orders passed by Government. Every alteration of emoluments, therefore, has to be passed by the Gazetted Officer in charge of the section. At the same time an intimation is sent to the officer concerned, and to the Officer in charge of the treasury at which he draws his pay, specifying the amount which he may draw in accordance with that order of Government. This intimation is called a pay slip.

148. Under the Fundamental Rules, an increment on a time scale of pay can be drawn as a matter of course unless it is withheld by special orders or an efficiency bar is reached. It has therefore become unnecessary to notify the grant of ordinary increments either in the Gazette or otherwise. It has also become possible to reduce the use of pay slips to a minimum. The slip is now so worded that it remains in force for a considerable time, *e.g.* :— Increments on time scales of pay.

Mr.________________ (designation)________________ is authorized to draw pay at the rate of R________ per mensem, with effect from________________, and an extra R____________ per mensem, with effect from the_________of________________every year (or second year) in the absence of intimation to the contrary.

A fresh slip is issued on the following occasions :—

(1) whenever any increment is stopped ;

(2) whenever an efficiency bar, or any other bar against the grant of a particular increment, is removed ; and

(3) whenever there is a change of any kind of emoluments, otherwise than by accrual of an increment in the ordinary course.

Scale register.

149. The orders passed by Government have first to be checked by the Audit office in order to see that they are admissible. In some provinces it is the custom for Government to send the orders in draft to the Audit office so that they may be checked before issue. The main portion of this check is carried out by means of the scale register in which is recorded the number of posts sanctioned in each grade or class of the service and the officers on duty month by month in each grade or class. The entries in this register have to be revised whenever an event occurs which takes an officer out of, or brings him into, the scales as for instance death, retirement, dismissal, resignation and departure on and return from foreign service, leave or deputation. In the case of services in which the graded system has been abolished, a simplified scale register is used in which the total number of officers holding the sanctioned posts is revised only on the occasion of any change.

Leave account.

150. For each gazetted officer a leave account is also kept in the Audit office, showing the period during which the officer was on duty, the leave earned by him, leave actually taken and the balance at his credit. From the entries in the account it is possible to calculate the leave admissible to an officer.

History of service

151. Finally a history of services is maintained for each gazetted officer, in which is recorded his station, substantive appointments, officiating appointments involving a change of duties, dates of alterations of appointments, grants of leave of all kinds, and absence without leave or in excess of leave or joining time. Pension calculations are based on this record.

152. The form of the pay bill of establishment is different from that of gazetted officers. It has columns in which are entered the name of each section and of each incumbent of a post, the name of each post in that section, and a column in which is recorded, in separate entries, the substantive pay, additional pay for officiating, special pay and leave salary drawn by each incumbent. There are subsidiary columns for pay, etc., held over for future payments, fines, other fund deductions and income tax. The officer signing the bill has to record certain certificates that pay previously drawn has been disbursed and receipts taken, that any leave granted was admissible, that all appointments and promotions have been recorded in the service books and that an absentee statement accompanies the bill, or that no person in superior service has been absent on deputation or suspension or on leave. This absentee statement is a most important part of the establishment bill. In it are shown the name and designation of each absentee, his pay, the nature of absentee allowance permissible, the name, designation and pay of the officiating officer and the additional pay permissible for officiating. Pay bills of Establishment.

153. The system of audit of such bills is also different from that of gazetted officers' bills. The unit here is not the officer but the section of the office in which he is working. In the establishment register, therefore, the main columns are— Audit of pay bills of Establishment.

(1) Name of the section and of the posts sanctioned therein.

(2) The pay of each post in the section.

(3) The order of Government prescribing any variation in the pay of the section.

(4) Monthly columns, in which are entered the amounts drawn for that section month by month.

This method of audit is called sectional, while the method of audit applied to the bills of gazetted officers is called nominal. In reality it is not strictly sectional inasmuch as the pay sanctioned for each post in the section is shown separately. If the audit were purely sectional there would

merely be a record of the number of posts in that section and the total pay sanctioned. This variation from strict sectional audit is necessitated by the rule that an officer is not permitted to grant to any subordinate a higher pay than that fixed for the post that subordinate is holding, so that the pay allotted to each post has to be entered in the register in order that the Audit office may check that this rule is duly observed. To describe the actual entries which have to be made in the columns for amounts drawn, and the reasons for making each class of entry, would be to enter into an amount of detail which would be out of place in a manual of this description.

The audit of pay bills of establishments the normal cost of which is less than Rs. 500 has recently been relaxed to 50 per cent; precautions being taken to ensure that the bills of no establishment escape detailed audit over a long period.

Audit of pay bills of Establishment on time scale rates of pay.

154. A time scale rate of pay has recently been sanctioned for most establishments and this has necessitated modifications in the existing procedure of audit. On the conversion of a graded service into one on a time scale rate of pay it is of vital importance to scrutinise the calculations of the initial rate of pay fixed for each Government servant, and once such rates are fixed the increments accrue year by year almost automatically. Where initial rates are dependent to any extent on service they can be checked only with the service books which are all in the districts. This work can therefore be best done at local inspections. Where such inspections are not possible the service books should be required to be sent to the Audit office for the purpose of the necessary check.

155. The following procedure has been laid down for the present, for auditing the pay bills of establishments on time scale of pay:—

(*a*) Such establishments fall under two groups, *viz.*—(*i*) those for which an establishment return is furnished annually by the Head of each office; and (*ii*) those for which no such return is furnished.

(*b*) In cases where no establishment return is received, the audit will be by numbers only. If a sanctioned

cadre contains its own leave reserve, the number to be entered in the Audit Register will be the sum of the number of Government servants drawing duty pay, and of those drawing leave salary. If in a cadre, officiating arrangements in leave vacancies are permissible, the number drawing (*i*) substantive pay, (*ii*) leave salary and (*iii*) officiating pay is noted separately in the Audit Register, and the audit consists in seeing that (*ii*) *plus* (*iii*) is within the sanctioned scale.

(*c*) (*1*) In the case of establishments for which an annual establishment return is received, the audit will be by numbers as well as against the permissible expenditure. The numbers to be entered in the Audit Register will be :—

(*i*) when a cadre contains its own leave reserve—the sum of the numbers of men drawing duty pay (substantive or officiating);

(*ii*) if the cadre does not contain its own leave reserve—the sum of the numbers of men drawing duty pay and of those drawing leave salary.

The audit check will be to see that this number does not exceed the sanctioned scale.

(*2*) For audit against the permissible expenditure, the first permissible expenditure on the introduction of a time scale is worked out on the fly-leaf of the Audit Register from the statement showing the initial pay fixed for each Government servant, and the date of his next increment; and for April of each year it will be checked with the annual establishment return. For this purpose, all men on duty temporarily outside the cadre or on leave are counted as if on duty; the pay of temporary men officiating in permanent vacancies is added, and for all unfilled vacancies, is added the minimum pay of the post. Corrections are made in the permissible expenditure during the course of the year only in regard to permanent factors, *e.g.*, increments, retirements and deaths, and consequent new appointments and increases and decreases of scale. These events are notified to

the Audit office in Increment Certificates, or in the remarks column of the pay bill or in the sanctions to scales, as the case may be. The savings and extra cost on account of leave and officiating arrangements, etc., which are worked out from the Absentee Statement are posted in the audit cage in the course of audit. The total of the bill is posted in the register in black ink and the sums held over, in red ink. The extra cost and savings are also noted in the Audit Register in red and black ink respectively from the Absentee Statement. It should then be seen that the total of the amounts entered in black ink (*i.e*, the total of the bill and savings) *plus* the amount held over (as recorded in red ink) does not exceed the permissible expenditure.

(*3*) In auditing a bill it is first of all necessary to check all items in the bill corresponding to the Absentee Statement, and at this stage the admissibility of the leave salary and the officiating pay will come under audit. The increment certificates are next audited, first against the fly-leaf and then in the bill itself. Then are audited the remaining items in the bill against which there is something in the remarks column. The extra cost and savings to be entered in the Audit Register are also worked out during this process of audit.

(*4*) Once a year a nominal test check for rates of pay only drawn in one month is undertaken. Any errors found in this month's bill must be traced through the bills of the year or years concerned.

(*5*) The subsequent drawals of amounts held over for future payments, or refunded, are audited against notes previously recorded in respect of such items in the Audit Register.

(*d*) As soon as it becomes possible to introduce local inspections or to post an officer of the Audit Department in each District Treasury it will be possible to check the leave account of each Government servant on the spot.

Summary of Fundamental Rules and Supplementary Rules.

156. These are the main documents to which the Audit Officer has to apply the rules as contained in the Fundamental Rules, and Supplementary Rules issued in connection

therewith, with regard to pay and allowances, leave and leave salary. A brief summary of the more important rules is given below.

157. The fundamental basis of a Government servant's emoluments is the amount fixed as the pay of the post he holds substantively. The term "pay" includes overseas pay, technical pay, special pay and personal pay, and any other emoluments which may be specially classed as such by the Governor General in Council. Overseas pay is pay granted to a Government servant for serving in a country other than the one of his domicile. Technical pay is granted to those who have received technical training in Europe. Special pay is an addition to pay granted either for extra duties performed or for the unhealthiness of the locality in which the work is performed. Personal pay is an addition granted to save a Government servant from loss of pay or on personal considerations. Pay.

158. A Government servant appointed to a post on a time scale of pay will draw as initial pay (1) the pay of the stage in the time scale next above his present substantive pay, if any, if he has not previously officiated therein, or if his present substantive pay exceeds the pay he drew when last officiating in that scale ; or (2) the pay he drew when last officiating in that scale if his present substantive pay is less than that amount. He will count for increment the period during which he drew the pay of a stage and will draw increments after counting one year in each stage. Time scale pay.

159. A Government servant holding one post substantively and officiating in another draws the pay of the officiating appointment subject to the condition that the officiating appointment involves the assumption of duties or responsibilities of greater importance or of a different character. Pay of officiating Government servants.

A Government servant officiating in a post on a time scale of pay draws as initial pay the stage of the time scale next above his substantive pay, if any, provided that if he has previously officiated in the post or in a post in the same cadre on the same time scale, his initial pay will be

the same as he drew when last officiating and he will count all officiating service in any stage of the time scale, whether continuous or not, for increment in that stage. If his substantive pay is more than the pay calculated as above, he will get the former.

Provisionally substantive posts.

160. If a Government servant is transferred to duty which there is reason to believe will not terminate within 3 years, and retains no connection with his substantive post, a local Government may suspend his lien on the post and fill it substantively reserving the right to reverse the arrangements thus made on the return of the Government servant in question.

Temporary post.

161. A person appointed to a temporary post will draw the pay of the post.

Compensatory allowances.

162. Compensatory allowance is an allowance granted to meet personal expenditure necessitated by the special circumstances in which duty is performed. It includes a travelling allowance. A local Government may grant such allowances to any Government servant under its control and may also make rules prescribing their amounts and the conditions under which they may be drawn. Compensatory allowance does not include the grant of a free passage to or from the United Kingdom which requires the general or special sanction of the Secretary of State in Council, nor does it include a sumptuary allowance.

Honoraria.

163. Unless in any case it be otherwise distinctly provided, the whole time of a Government servant is at the disposal of the Government which pays him, and he may be employed in any manner required by proper authority, without claim for additional remuneration, whether the services required of him are such as would ordinarily be remunerated from general revenues, from a local fund or from the revenues of an Indian State.

164. A Government servant may be granted an honorarium from general revenues, or permitted to receive an honorarium or a recurring or non-recurring fee from a private person or body, or from a public body, including a body administering a local fund, or from an Indian State,

or in return for work performed either within or outside the course of his ordinary duties when the work is of such exceptional merit or of such an arduous or peculiar nature as to justify a special reward. The reasons for the grant of the honorarium or fee should be recorded by the sanctioning authority.

165. A local Government may make rules fixing the amounts which may be sanctioned as honoraria or fees by the authorities subordinate to it and specifying the conditions under which they may be granted or accepted.

NOTE.—This rule does not apply to the acceptance of honoraria or fees by medical Officers in civil employ, which will be governed by such orders as the Secretary of State in Council may issue in this behalf.

166. Leave rules under the Fundamental Rules are divided into two classes—special leave rules and ordinary leave rules. The conditions governing admission to the benefits of the special leave rules will be laid down by the Secretary of State in Council; all Government servants not so admitted will be subject to the ordinary leave rules.

NOTE.—Pending the issue of final orders on the subject, however, the Government of India have decided with the approval of the Secretary of State that all officers who were under the European Service Leave Rules on the date of introduction of the Fundamental Rules will be subject to the special leave rules.

167. There are two kinds of leave, *viz.*, leave on average pay (*i.e.*, on full average pay, half average pay or quarter average pay), and extraordinary leave. Leave Rules.

168. Average pay is the average monthly pay earned during the 12 complete months immediately preceding the month in which the event occurs which necessitates the calculation of average pay.

169. A leave account is maintained for each Government servant in terms of leave on average pay in which all periods of leave earned are credited and all periods of leave taken are debited. The amount of leave due to a Government servant is the balance at his credit in the leave account.

170. The main features of the two kinds of leave rules are indicated in the following tables :—

I.—Special Leave Rules.

—	Those who on entry into Government service come under Fundamental Rules.	Those who prior to 1st January 1922 were under the rules in the Civil Service Regulations and who come under the Fundamental Rules on or after 1st January 1922.
(*a*) *Leave credited to leave account.*	$\frac{5}{22}$nds of period of duty.	(1) Privilege leave due on the date of coming under Fundamental Rules, *plus* (2) $\frac{1}{8}$th of the period spent on duty or on privilege leave prior to that date, *plus* (3) $\frac{5}{22}$nds of the period of duty subsequent to that date.
(*b*) *Leave debited to leave account.*	(1) The actual period of leave on average pay. (2) Half the period of leave on half or quarter average pay or leave on leave salary equivalent to subsistence grant. [Furlough, leave on medical certificate or special leave taken under old rules will count under (2)].	
(*c*) *Leave due.*		
(1) Maximum amount of leave in terms of average pay permissible during whole service.	$\frac{1}{11}$th of period of duty *plus* 3 years.	Privilege leave due on the date of coming under Fundamental Rules *plus* $\frac{1}{11}$th of period of duty subsequent to that date *plus* 3 years.
(2) Maximum amount of leave on full average pay permissible during whole service.	$\frac{1}{11}$th of period of duty *plus* one year.	Privilege leave due on the date of coming under Fundamental Rules *plus* $\frac{1}{11}$th of period of duty subsequent to that date *plus* one year.
(3) Maximum amount of leave on full average pay permissible at any one time.	8 months.	8 months.
(4) Maximum period of continuous absence on leave otherwise than on medical certificate.	28 months.	28 months.

I.—*Special Leave Rules*—contd.

—	Those who on entry into Government service come under Fundamental Rules.	Those who prior to 1st January 1922 were under the rules in the Civil Service Regulations and who come under the Fundamental Rules on or after 1st January 1922.
(*d*) *Leave not due.*	(*i*) On medical certificate, without limit. (*ii*) Otherwise than on medical certificate, 3 months at one time and 6 months in all in terms of leave on average pay.	

II.—*Ordinary Leave Rules.*

(*a*) *Leave credited to leave account.*	$\frac{2}{11}$ths of period of duty.	(1) Privilege leave due on the date of coming under Fundamental Rules, *plus* (2) $\frac{1}{12}$th of period spent on duty or on privilege leave prior to that date, *plus* (3) $\frac{2}{11}$ths of period of duty subsequent to that date.
(*b*) *Leave debited to leave account.*	(1) the actual period of leave on average pay. (2) Half the period of leave on half or quarter average pay. [Furlough and leave on medical certificate taken under old rules will count under (2)].	
(*c*) *Leave due.*		
(1) Maximum amount of leave, in terms of average pay, permissible during whole service.	$\frac{1}{11}$th of period of duty *plus* 2½ years.	Privilege leave due on the date of coming under Fundamental Rules *plus* $\frac{1}{11}$th of period of duty subsequent to that date *plus* 2½ years.
(2) Maximum amount of leave on full average pay permissible during whole service.	$\frac{1}{11}$th of period of duty.	Privilege leave due on the date of coming under Fundamental Rules *plus* $\frac{1}{11}$th of period of duty subsequent to that date.

NOTE.—If the Government servant takes leave on medical certificate or proceeds on leave out of India or Ceylon, the maximum limit may be increased to the extent of one year more.

(3) Maximum amount of leave on full average pay permissible at any one time.	(*i*) $\frac{1}{11}$th of period of duty up to four months.	Privilege leave due on the date of coming under Fundamental Rules *plus* $\frac{1}{11}$th of period of duty subsequent to that date, up to four months.
	(*ii*) Leave to the extent due but not exceeding 8 months, if on leave on medical certificate or on leave out of India or Ceylon.	

II.—Ordinary Leave Rules—contd.

—	Those who on entry into Government service come under Fundamental Rules.	Those who prior to 1st January 1922 were under the rules in the Civil Service Regulations and who come under the Fundamental Rules on or after 1st January 1922.
(4) Maximum period of continuous absence on leave otherwise than on medical certificate.	28 months.	28 months.
Leave not due.	(i) On medical certificate, without limit. (ii) Otherwise than on medical certificate, 3 months at one time, and 6 months in all, in terms of leave on average pay.	

171. In special circumstances and when no other leave is by rule admissible, extraordinary leave may be granted. This leave is not debited against the leave account and no leave salary is admissible during such leave.

172. Subject to the conditions specified in paragraph 170, leave salary admissible is as below :—

(a) *During leave due.*—Leave salary equal to average pay or to half average pay, or to average pay during a portion and half average pay during the remainder at the option of the Government servant.

(b) *During leave not due.*—Leave salary equal to half average pay.

(c) *After continuous absence for 28 months.*—Quarter average pay subject to the maxima and minima specified in paragraphs 173 and 174. A member of the Indian Civil Service or a Military Commissioned Officer subject to these rules gets leave salary equal to subsistence grant after this period.

NOTE.—When a non-gazetted Government servant takes leave, his pay at the time of taking leave may be treated as his average pay if (i) his pay is less than Rs. 300, or (ii) the leave taken does not exceed one month.

173. Except during the first four months of leave on average pay, leave salary is subject to the following maxima :—

	AVERAGE.		HALF AVERAGE.		QUARTER AVERAGE.	
	Outside Asia.	In Asia.	Outside Asia.	In Asia.	Outside Asia.	In Asia.
	£	Rs.	£	Rs.	£	Rs.
(1) Indian Civil Service and Military Commissioned officers subject to the special leave rules.	222	2,222	111	1,111	...	...
(2) Other Government servants subject to the special leave rules.	200	2,000	100	1,000	60	600
(3) Government servants subject to the ordinary leave rules.	150	1,500	75	750	60	600

174. Subject to the condition that leave salary does not exceed average pay, leave salary is subject to the following minima :—

	HALF AVERAGE.		QUARTER AVERAGE.	
	Outside Asia.	In Asia.	Outside Asia.	In Asia.
	£	Rs.	£	Rs.
(1) Indian Civil Service and Military Commissioned officers subject to the special leave rules.	55½	555	...	...
(2) Other Government servants subject to special leave rules.	33	333	16½	166.
(3) Government servants subject to the ordinary leave rules.	25	250	12½	125

175. Leave salary is payable in rupees if the Government servant is residing in Asia and in sterling if residing out of Asia. Leave salary drawn in rupees must be drawn in India or, by a Government servant residing in Ceylon, in Ceylon. Leave salary drawn in sterling must be drawn in London, or, at the Government servant's option, in any British Dominion or Colony prescribed by the Secretary of State. Up to the first four months of leave, leave salary may be drawn in rupees in India though the Government servant may be residing out of India.

176. The rupee maxima and minima referred to in paragraphs 173 and 174 are applicable to those Government servants only who reside in Asia during their leave, and the sterling maxima and minima to those who reside elsewhere.

177. The leave salaries of Government servants are debited according to the following rules :—

1. When a Government servant had served only under one Government before proceeding on leave his leave-salary will be debited to that Government.
2. When a Government servant is transferred to service under a Government other than that under which he was first employed, the leave-salary drawn by him during any leave taken after the date of transfer shall be charged to the borrowing Government until the entire leave earned under that Government has been exhausted.

Chapter 17.

Travelling allowance.

178. The main points which have to be attended to in the audit of travelling allowance bills are :— Main points of Audit.

(1) that the journey was actually performed ;.

(2) that it was necessary ;

(3) that it was performed as expeditiously as possible ;

(4) that no bill has been submitted for it before ;

(5) that the amount drawn is correct.

Point (5) involves a check of distances in those cases in which the travelling allowance depends upon the distance travelled.

179. Now, it is evident that points (1) to (3) are much the more important and that the Audit Officer at the capital of the province has no opportunity of checking these points adequately. The duty of applying these checks, therefore, is imposed upon the controlling officer who is either the Collector or a superior departmental officer. Duties imposed on Controlling Officers.

The choosing of the controlling officer in respect of each office is a matter of importance, and local Governments realise the necessity of choosing as a controlling officer that responsible authority who is in the best position to exercise a proper check under these three heads.

It is now an important function of the Audit Officer to see that the scrutiny entrusted to controlling officers is exercised by them properly. This can be carried out partly by local inspection and partly by detailed scrutiny of the bills in the Audit office. To check the manner in which the bills are examined, all the bills that were passed, say in the course of six months should be brought together and examined to see whether they were scrutinised thoroughly or perfunctorily. A similar test check is also desirable in respect of the claims of officers whose bills do not require countersignature. The examination of bills for a continuous period enables an opinion to be formed as to whether the journeys were or were not made in the public interest. It

will be interesting to quote an instance exhibiting the result of one such test check of the travelling allowance of an officer who countersigned his own bills. The journeys that he had made during a period of 12 months were listed and reported to the local Government, with the result that the officer was fined Rs. 500, deprived of the privilege of countersigning his bills and warned that a recurrence of such a misuse of his privileges would entail his dismissal.

Check of distances.

180. The duty of checking distances is now entrusted to the controlling officers. Experience has proved that even if the Audit Officers take the greatest pains, their check in this respect is often unsatisfactory, because it is impossible for them to know the actual distance of a journey, say between two small villages in a district many miles away from headquarters. The controlling executive officers are better able to check such distances. Audit Officers, however, when checking the manner in which controlling officers perform their duties—see paragraph 179 above—should apply test checks to satisfy themselves that the controlling officers check distances.

The amount of railway fare and of steamer fare is checked in the Audit office with the tables of fares.

Bill forms.

181. Demands for travelling allowance are submitted on bills which are drawn up in such a way as to give all the information necessary to ensure the proper check of the bill. Thus they show the name of the officer, his head-quarters, the purpose of the journey, the date of the journey, the route by which it is performed, the distance travelled by road (whenever it is necessary to enter this particular), railway fare, steamer passage money, number of days halted, &c. These bills are submitted in the first place to the controlling officer. Some controlling officers supplement the entry in the column for the "purpose of journey" by requiring diaries or journals to be submitted by officers indicating what those officers have done during each tour. The controlling officer, having countersigned the bill in token of his check, returns it, and the officer who performed the journey then obtains payment of the bill at the treasury.

Audit.

182. On receipt in the Audit office the bill is audited either by the district auditor or in some cases in a separate

section, *e.g.*, in the special section for auditing the claims of gazetted officers. Check No. 4 referred to in paragaph 178, *i.e.*, to see that the bill is not drawn twice for the same journey, is applied to all the bills of gazetted officers, by means of a register in which the bills drawn by the same officer are entered in sufficient detail to render this check possible. Such a register is maintained for non-gazetted Government servants only in such cases in which the local Government requests that the travelling allowance charges of any office should be audited against the separate appropriation for travelling allowance of establishment. A test check should occasionally be made to see that Heads of offices so scrutinise the establishment bills as to guard against double claims for the same journey.

Only 50 per cent. of the travelling allowance bills of Government servants of 3rd or 4th grade (*vide* paragraph 185) are audited in full detail in each month—the selection being made by a Gazetted Officer.

183. Under the Reforms, local Governments have been given the powers of making their own rules in respect of travelling allowance, subject to the condition that the allowances are not on the whole a source of profit to the recipient. This condition having been recognised as a canon of financial propriety, the Audit Department is responsible for watching that it is not infringed. The principles of this canon cannot, however, be applied to individual journeys of various officers as the expenses vary so enormously in different areas of a province and under different conditions in the same area that it is impossible to frame formulæ for determining the actual expenses incurred by each officer in respect of each journey. Travelling usually necessitates the permanent upkeep of means of conveyance for the officer and that for his baggage as well, and in such a case it would be impossible to distribute over a series of journeys this permanent expenditure. An attempt should, therefore, be made, to scrutinise the general rules framed by the local Government to see that the allowances are restricted to such rates as may meet the expenditure which an officer has generally to incur on his journeys as a whole.

184. The summary of the travelling allowance rules given in the following paragraphs refers to the rules made

by the Governor General in Council, for application to the Government servants whose pay is debitable to Central revenues and who are not under the administrative control of a Governor acting as an agent of the Governor General in Council. It does not take the place of a detailed study of the rules but is intended merely as an introduction to such a study. Local Governments have powers to frame their own rules suited to the conditions of their province.

Classification of officers. 185. For the purpose of calculating travelling allowance, Government servants are divided into four grades. The main criterion for classification is the pay drawn by the Government servant. The first grade includes all those whose substantive pay exceeds Rs. 500 a month, the second those whose substantive pay exceeds Rs. 100 and the third all Government servants in superior service whose substantive pay does not exceed Rs. 100, and the 4th grade comprises persons in inferior service. Government servants may, for special reasons, be included in a grade higher or lower than that determined by the above criterion.

Daily allowance. 186. The main item of travelling allowance is the daily allowance, *i.e.*, the amount which an officer draws each day on which he travels more than 5 miles away from his head-quarters. This allowance is ordinarily not admissible for more than 10 days of a halt at one place. This restriction is based on the ground that expenses usually decrease as the length of a halt increases, and ensures due expedition in a journey. Certain officers are, however, allowed general or individual exemptions from this restriction when the prolonged halts are necessary in the interests of public service and entail extra expense.

The scale of daily allowance and mileage admissible in regard to Government servants to whom these rules apply has been fixed according to the grade of the Government servant. When a Government servant travels within the territories administered by a local Government which has fixed special rates of daily allowance or mileage for Government servants under its administrative control he must draw the daily allowance or mileage at the rates so fixed for his grade.

Mileage. An officer is allowed to draw mileage, however, instead of daily allowance, when he travels more than 20 miles by road

or when he travels by road in continuation of a rail or steamer journey in which case the mileage is limited to the amount of daily allowance unless the journey by road exceeds 20 miles.

Rail and steamer fares

When travelling by railway, an officer of any of the first three grades is allowed for the journey, instead of the daily allowance, double the fare of the class in which he is entitled to travel according to the grade into which he falls for the purpose of travelling allowance. An officer travelling by steamer is similarly allowed, instead of daily allowance, double the fare of the class in which he is entitled to accommodation according to his grade. In cases where a steamer company has two rates of fare, one inclusive and the other exclusive of diet, the allowance admissible is double the fare exclusive of diet. An inferior servant is allowed a single fare of the lowest class and in addition ordinary daily allowance when travelling by rail and double the rate of daily allowance when travelling by steamer.

Rates when Government supplies means of locomotion.

A Government servant of any of the first three grades who uses a means of locomotion provided at the expense of Government, a local fund or an Indian State, but who pays all the cost of its use or propulsion, draws the travelling allowance ordinarily admissible for the journey subject only to the deduction of such hire as may be determined by rule. If the cost of such use or propulsion is not paid by the Government servant he is allowed only the daily allowance. If part of the journey is made by other means of locomotion he may exchange the daily allowance for the mileage admissible for that part. If the Government servant has to provide conveyance for his servants or luggage, he is allowed, in case the journey is by road exceeding 20 miles or is a road journey combined with one by rail or, sea or river steamer, to exchange his daily allowance for half the mileage allowance calculated for such journey and to draw in addition the mileage allowance admissible for any part of the journey made by other means of locomotion.

If a Government servant travels by a motor car supplied to him at the expense of Government, he may draw :—

(*a*) if he travels by the motor car more than 20 miles in one day, the mileage allowance of his grade for

the first 20 miles, and three-fourths of that rate for the remainder of the journey ;

(*b*) if he combines with a journey by the motor car a road journey by other conveyance, he may draw the mileage allowance admissible for the first 20 miles or for the journey by other conveyance whichever is greater, and for the remainder of the journey three-fourths of such mileage allowance ;

(*c*) if he combines with a journey by road, whether made wholly or partly in the motor car, a journey by railway or steamer, he may draw mileage allowance for the journey by railway or steamer in addition to the allowances admissible under clauses (*a*) and (*b*) above for the journey by road.

Permanent monthly allowance.

Some officers have to do a considerable amount of travelling, and in such cases permanent monthly allowances are granted in lieu of all other travelling allowances for journeys within an officer's circle of duty. Such allowances are given all the year round whether the officers are on tour or not. There is a tendency for the extension of this form of allowance as it simplifies clerical work. The substitution of this allowance for all other allowances does not, however, relieve the controlling officers from the responsibility for watching that officers serving under them undertake all the journeys that they are expected to make. Here also the Audit Officers will have occasionally to apply test checks to see that controlling officers are attending to this duty.

Conveyance allowance.

Another modification of this form of travelling allowance is the conveyance allowance granted to officers who have a large amount of travelling at or within a short distance from headquarters, for which travelling allowance is ordinarily inadmissible.

Journeys on transfer.

For journeys on transfer a Government servant may draw the following allowances :—

I.—For journeys by rail or steamer.

Three times the fare of the class to which his grade entitles him and in addition extra number of fares actually

paid for such members of his family who accompany him. He is allowed also the actual cost of transporting (by goods train, steamer or other craft) his personal effects up to the following maxima :—

Grade of Government servant.	If travelling alone.	If travelling with family.
	Mds.	Mds.
First	40	60
Second	20	30
Third	12	15

If the distance travelled exceeds 80 miles and the possession of a conveyance is advantageous from the point of view of efficiency of the Government servant in the new post, the actual cost of transporting the conveyances and horses by rail, steamer or other craft is allowed on the following scale :—

Grade of Government servant.	Scale allowed.
First	Two horses, and a carriage or motor car or motor cycle.
Second	One horse, and a carriage or motor cycle.
Third	One horse or a motor cycle or ordinary cycle.

NOTE.—In the case of a motor car, the cost of transporting a chauffeur or cleaner, and for each horse the cost of transporting one syce and one grass-cutter may be drawn.

II.—For journeys by road.

Double the mileage allowance for himself and one or two extra mileages for his family according as the number of the members of the family accompanying him is two or more. An allowance at certain fixed mileage rates is also given to cover the cost of transporting the personal effects.

Chapter 18.

Pensions.

187. The essential points of the audit of pensions are to ensure :—

(a) that the retiring officer is entitled to the pension he claims;

(b) that a pensioner is entitled to the pension he draws.

Both these points are checked in the Audit office.

188. The title to the pension claimed is checked in the following manner :—

Preliminary verification.

Shortly before a non-gazetted Government servant is due to retire he must submit to the authority, whose duty it would be to fill up his appointment, his service-book and a statement of his services. It is then the duty of that officer to check this record as far as possible and to submit it to the Audit Officer for comparison with the records in his office. The main source of comparison in the Audit office is the annual list of pensionable establishments which has to be submitted by every Head of an office to the Audit office where it is checked with the sanctions recorded in the audit register. This preliminary verification is made in order to facilitate the check of the formal application which has to be made when an officer retires, so that there may be as little delay as possible in granting the pension, and to ensure that no officer inadvertently retires before he is entitled to a pension.

It is unnecessary for a gazetted officer to submit any preliminary statement for verification or any detailed list of his service with his formal application inasmuch as full details are entered in the history of services, for the preparation of which the Audit office is responsible.

189. The following are the main features of the rules relating to pension. For particulars regarding service qualifying for pension, the amount of pension admissible, etc., the detailed rules may be referred to :—

Service qualifying for pension.

(a) The main check in the Audit office is to see that the service rendered qualified for pension, and for this the essential conditions are that the

service must be under, and paid by, Government and a Government servant must hold a permanent post in that service substantively. It is open to a local Government to rule when creating a new post or establishment that service in such a post or establishment shall not be pensionable service.

(*b*) Qualifying service may be either 'superior' or 'inferior.' Subordinate service which may be classed as such by a local Government, is inferior service. All other service is superior service.

(*c*) The following constitute an interruption of service:— **Forfeiture of service.**

(1) Resignation of Government service otherwise than in circumstances qualifying the resigning Government servant for a pension or gratuity.

(2) Removal from Government service for inefficiency not due to age, for misconduct or for insolvency.

(3) Removal from Government service for failure to pass a prescribed examination.

(4) Absence from duty otherwise than on authorised leave.

An interruption of service entails the forfeiture of all past service unless the local Government in any case otherwise direct.

(*d*) Government servants who have held certain special posts which are termed lower grade posts or higher grade posts and have shown such special energy and efficiency as to deserve the concession are entitled to special additional pensions at specified rates.

(*e*) Pensionable pay is calculated on the average pay earned by a Government servant during his last three years of service.

(*f*) Pensions are calculated to the nearest anna.

(*g*) For inferior service, the pensions admissible will be governed by rules framed by local Governments. **Inferior Service.**

190. Prior to the introduction of Reforms the pensionary charges of Government servants of all civil departments were charged to the accounts of the province in which such charges were disbursed, even if the pensions had been earned by service in other provinces or under the Government of India. Under the Reforms, each province constitutes a separate Government, entirely responsible for its own finances and consequently it has become necessary for each Government to recover from any other Government the payments which it may make on its behalf in respect of pension earned by service under the latter. Pensions sanctioned before 1st April 1921 will, however, be treated as a charge to the Government which had to bear it under the old rules, *i.e.*, these will be debited to the Central Government if paid outside India and to the Government by which the payment is made if the payment is made in India. In respect of Government servants who have served under more than one Government, the distribution of the pensions sanctioned after 1st April 1921, is determined under the following rules, approved by the Secretary of State in Council :—

Pensions sanctioned on or after 1st April 1921 :—

(*a*) *Payments outside India :—*

(*i*) If an officer has served under only one Government that Government will bear the charge.

(*ii*) If he has served under more than one Government the pension will be divided among the several Governments in proportion to the length of service under each.

(*b*) *Payments made in India :—*

(*i*) If an officer has served under one Government only that Government will bear the pension drawn by him on retirement even though he draws it from another Government. Pensions drawn in provinces by servants of the Central Government will be debited to Central heads direct.

(*ii*) If an officer has served under more than one Government (other than the Government of India) before retiring, his pensions will be borne by the Government under which he was serving at the date of retirement.

(iii) If an officer has served both under the Central Government and under one or more other Governments before retiring, the Central Government will be debited with a proportionate share of the pension determined by mere length of service. The balance will be borne by the Government under which he was serving at the date of retirement or, if that be the Government of India, by the Government under which he was serving prior to his transfer to the Government of India.

(c) *Special additional pensions, whether paid in India or outside India.*—Special additional pensions will be treated as separate items and distributed according to length of service between the different Governments under which the service by which the additional pension was earned was rendered.

(d) *Civil servants who were placed on military duty during the war shall be deemed to have been serving under the Government of India for the period of that duty.*

191. When an adjustment has to be made under these rules between two or more Governments it may be made either by the payment in lump or in instalments of the commuted value of a pension or in accordance with any special arrangement which may be concerted between the Governments concerned.

192. No pension can be sanctioned (except in the case of certain classes of Police subordinates) until the Audit office has stated that the amount which it is contemplated to sanction is permissible under rule. A copy of the order of sanction is then forwarded to the Audit Officer who verified the service so that he may check whether the pension granted is permissible. The Audit Officer then issues duplicate pension payment orders, one to the pensioner himself and the other to the Treasury Officer in charge of the treasury at which the pensioner wishes to take payment. The distribution of the pensionary charges under paragraph 190 is also made at the same time and the Audit Officer takes steps to make the necessary adjustment of charges, between the different Governments in the manner laid down in paragraph 191. Authority for pension.

193. Pensions are paid at treasuries, and every payment has to be entered by the Treasury Officer on both copies of Method of persion payment.

Identification of pensioner

the pension payment order. At the same time he takes the receipt from the pensioner and checks the identifying marks and the signature, or the thumb impression, with those recorded on the original order. Some pensioners are permitted to draw pension without personal application, but in such cases they have to forward life certificates with their receipts and also have to attend once a year for identification.

This identification of the person drawing the pension with the person to whom the pension was granted is, of course, the essential audit check and here again the Audit office has to rely upon another authority for the due performance of the check.

Audit in Audit office of pension payments.

194. The audit of pension payments in the Audit office is conducted only in respect of a small percentage—approximately one-sixth of the vouchers the selection of those to be checked being made by a Gazetted Officer. The pension vouchers of each treasury are thus audited for some 2 months in each year. This audit consists in seeing that the amount paid is not greater than the amount sanctioned. One month's vouchers of each treasury are also audited in detail at the annual inspection of treasuries. This local check consists not only of the comparison of the amount paid with the amount due but also of a general review of the treasury records to see that they do not indicate any double payment of the pension for the same month.

Chapter 19.

Contingent Expenditure.

195. Under this heading civil accounts group a number of payments of the most varying description. In fact under this category are included all payments made by Civil officers to people not in Government service, if they do not fall under the heads Deposits, Remittance Transfer Receipts, or Supply Bills. It is, then, a little startling at first sight to find the general rule laid down that, subject to any orders of the local Government or controlling authority, an officer is allowed to draw money from the treasury for contingent expenses incurred on the public service within the amount allotted to him in his budget estimates or otherwise. For ordinary expenses previous sanction is not required. It is for the local Government to define the nature and limit of charges:—

(*a*) which may be incurred without previous sanction, and

(*b*) which require the previous sanction—

(*i*) of any controlling officer,

(*ii*) of itself.

There is, however, one important proviso, *viz.*, that fixed allowances for contingent expenses which are drawn regularly irrespective of the actual expenditure incurred in any month, are not subject to any of the rules relating to contingent expenditure.

The consequence is that a very large number of rules have had to be promulgated by the Government of India and by the various local Governments limiting the power of officers to incur contingent expenditure. The former apply to the departments and administrations under the control of the Government of India, and are contained in the Civil

Account Code or in other codes issued under the authority of the Government of India. The latter apply only to the departments of the local Government concerned, and are contained in their financial rules which are embodied either in the local Government's codes or in departmental manuals. The important local rules which have not been embodied in any codes are usually brought together in the manuals relating to the work of the various sections of Audit offices.

Classification of contingencies.

196. The main check over contingent expenditure is performed by the controlling authorities and at one time almost every item of contingent expenditure had to be countersigned. But now in nearly all provinces the following classes are to be found, *viz.* :—

(*a*) Contract contingencies ; those in respect of which Government have entered into a contract with disbursing officers that they shall be given a free hand provided they do not exceed the contract grant ;

(*b*) Contingencies regulated by scales ; expenditure on which may be incurred subject to certain rates which have been prescribed by Government;

(*c*) Special contingencies ; which require special sanction of superior authority ;

(*d*) Countersigned contingencies ; expenditure on which has to be accepted by superior authority, which acceptance is intimated to the Audit office by the submission of separate detailed countersigned bills under the procedure laid down in the Civil Account Code.

(*e*) Contingencies of heads of departments and other officers which do not require countersignature.

197. This subject of contingent audit is a difficult one to deal with, because the classification of contingent expenditure varies considerably in the different offices.

In some provinces probably as many items of contingent expenditure as possible have been brought into classes (*a*) to (*c*). In other provinces it is possible that the number

of items of contingent expenditure in those three classes could be increased with advantage.

198. Nearly all disbursing officers have permanent advances, that is, a sum of money placed at their disposal to meet immediate needs. Such permanent advances correspond to an ordinary person's pocket-money. As far as possible all contingent expenditure is met from this permanent advance and whenever the advance requires to be replenished the disbursing officer has to submit bills to the treasury indicating the nature of the expenditure which has depleted the advance. Permanent advance.

199. Contingencies of classes (*a*) to (*c*) and (*e*) referred to in paragraph 196 can be drawn direct from treasuries on bills. The bills for contract contingencies are not supported by any vouchers. The bills for the other three classes are supported by vouchers for amounts in excess of Rs. 25 each; in respect of special contingencies the sanctions are also quoted. The bills for expenditure on items falling under class (*d*) are presented first of all in the form of an abstract at the treasury in order to replenish the advance, and subsequently detailed bills with all the vouchers attached are submitted to the countersigning authority for countersignature and for submission to the Audit office with vouchers exceeding Rs. 100. The Audit office holds all amounts drawn on abstract bills under technical objection until all the vouchers and the countersignature of the controlling authority have been received in support of the expenditure. Drawal of money for contingencies.

200. It is the duty of a countersigning officer to see that the charges drawn in a contingent bill are of obvious necessity, and are at fair and reasonable rates; that previous sanction for any item requiring it is attached; that the requisite vouchers are all received and are in order, and that the calculations are correct; and specially that the expenditure has not exceeded, and is not likely to exceed, the appropriation for the purpose. If expenditure be progressing too rapidly, he should communicate with the disbursing officer, and insist on its being checked. Duties of controlling authority and of Audit office.

201. It is important here to set forth the different duties of the controlling authority and of the Audit office.

These authorities have to satisfy themselves as indicated below:—

Points of check.	Controlling authority.	Audit Officer.
(1) Vouchers .	That he has received all above Rs. 25: that they (specially those between Rs. 25 and Rs. 100) are correct.	That he has received all above Rs. 100 and that they are correct.
(2) Necessity of expenditure.	That it was necessary.	That there is no breach of any canon of financial propriety.
(3) Rates . .	That rates are fair and reasonable.	That the rates are apparently not extravagant.*
(4) Progress of expenditure.	That expenditure is not likely to exceed grant or appropriation.	That the flow of expenditure is not too rapid. In cases in which the local Government has requested that the expenditure of any specified office should be audited against the specified appropriation for it, the Audit Officer has also to see that the expenditure has not actually exceeded the sanctioned appropriation.

* If he has reason to suppose that rates are extravagant he should act as indicated in paragraphs 105 and 106 above.

As to the amount of work imposed upon controlling authorities under these rules the following quotation may be made from a letter by an Accountant General:

"In the case of departments, such as Jails, Police, and Medical, the contingent expenditure includes very large sums under Supplies and

Services for feeding of prisoners and patients and the supply of rations, clothing, arms and accoutrements to very many thousands of poiicemen, and the heads of these departments have practically got subsidiary Audit officer establishments under them to enable them to exercise a detailed control over this very large expenditure. Countersignature in the case of these departments at any rate does imply a very large amount of detailed check of which the Audit office is thereby relieved."

202. The work of the controlling officer is much more onerous than that of the Audit Officer; it is more difficult to decide whether expenditure is necessary than whether it is unusual, and whether rates are reasonable than whether they are apparently extravagant. At the same time the Audit Officer also has to determine as far as possible whether the controlling officer is doing his work adequately, and this is, perhaps, his most important duty in respect of contingent expenditure.

Importance of Contingent Audit.

203. The audit of smaller bills amounting to not more than Rs. 500 each has recently been relaxed to a percentage check varying from 25 to 75 according to the nature of the transactions. The audit of contract contingencies has been restricted to seeing that there is no breach of any canon and that the progressive expenditure does not exceed the contract grant. Audit in India would probably benefit if more attention were paid to the scrutiny of contingent expenditure and less to the minute examination of establishment and travelling allowance bills. Gazetted Officers should devote particular care to their review of bills of Rs. 3,000 or over and should also scrutinize some of the smaller bills.

Registers used in Audit.

204. Audit derives little assistance from elaborate registers in the check of these bills. Registers are used for two purposes: to check the progressive expenditure against the appropriation; and to check any expenditure requiring special sanction against the order of sanction. The forms used for these purposes are too simple to require explanation.

Chapter 20.

Expenditure on Works.

Importance of such expenditure.

205. The extreme importance of this class of expenditure can be gauged from the fact that the total expenditure in India in 1920-21 recorded under the major heads referring to Public Works, Irrigation and Railways amounted to over 68 crores of rupees, and the larger portion of such expenditure was on works. It will not be possible, then, to do more than touch the fringe of the subject in this manual.

Need of preparation of estimates before sanction.

206. There are always more demands on the public purse than can possibly be met, and therefore the advantages to be derived from compliance with each demand have to be weighed against the probable cost in order to select those on which Government money can be used to the best advantage. Now, the direct cost of a new establishment can be calculated accurately, its indirect cost with reasonable accuracy : and the cost price of anything to be purchased as contingent expenditure will be known within reasonable limits at the time the purchase is sanctioned.

But a building for, say, a hospital can be erected for one lakh, while 40 lakhs can also be spent on its erection. Government may be quite willing to spare one lakh, but extremely reluctant to spend 40 lakhs.

Thus the Public Works Department Code, 10th edition, states in paragraph 258 that " it is a fundamental rule that no work shall be commenced unless a properly detailed design and estimate have been sanctioned, . . . Excepting in regard to petty works . . . and in cases of real emergency to be immediately reported and explained to the authorities competent to accord administrative approval and technical sanction, this injunction may not be infringed."

Degree of infringement of rule.

That the Audit Department has much steady work before it to enforce the observance of this rule is shown by the fact that in 1920-21 the amount placed under objection for non-observance of this rule in the Buildings and Roads and

Irrigation branches was over 16·2 per cent. of the total works expenditure of the year in those branches.

207. A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and finally to be approved by, the authorities for whom the work is to be erected. This approval is called "administrative approval" and is, in effect, an order to the Public Works Department to execute certain specified works at a stated sum to meet the administrative needs of the department requiring the work. In other words, the administrative experts have to say—this work meets our requirements, and we do not consider the cost, as shown in a preliminary estimate accompanying the design submitted for administrative sanction, will be extravagant. Administrative and technical sanction.

Once this is obtained the detailed estimate is prepared which has to receive the "technical sanction" of the Public Works Department. If, in working out the detailed estimates or during the construction of the work, it is found necessary to make any important deviation from the design to which administrative sanction has been obtained, such sanction has also to be obtained to the deviation.

208. Even with the greatest thoughtfulness and accuracy it is not always possible to foresee everything that will be required or to frame an estimate which will not be exceeded. Therefore we have the rules "Any development of a project thought necessary while a work is in progress, which is not fairly contingent on the proper execution of the work as first sanctioned, must be covered by a supplementary estimate, accompanied by a full report of the circumstances which render it necessary." (Public Works Department Code, paragraph 287.) Supplementary and revised estimates.

"A revised estimate must be submitted when the sanctioned estimate is likely to be exceeded by more than 5 per cent." (Public Works Department Code, paragraph 288.)

But the extra expenditure which has to be covered by a supplementary or revised estimate is often incurred before sanction can be obtained to these estimates. This nullifies the value of such estimates and, therefore, we have the rule "Should any alteration of importance, involving

additional expense, be considered necessary, a revised or supplementary estimate should be submitted for sanction. In urgent cases, where the delay thus caused would be inconvenient, an immediate report of the circumstances must be made to the superior authority and dealt with as the case may require." (Public Works Department Code, paragraph 264.)

This rule was introduced at the instance of the Secretary of State, who has devoted great attention to this question of excesses over estimates, and its importance is manifest.

When excesses occur at such an advanced period in the construction of a work as to render the submission of a revised estimate purposeless, the excesses, if beyond the power of the Executive Engineer to pass, are explained in a Completion Statement or Detailed Completion Report referred to in the following paragraph.

209. Finally, a consolidated Completion Statement is prepared monthly of completed works the actual expenditure on which is in excess of the sanctioned estimate by an amount which an Executive Engineer is empowered to pass. But in respect of completed works on which the outlay has been recorded by sub-heads, a Detailed Completion Report for individual works is prepared instead of a Completion Statement, in the following cases :—

(1) when, if the work was sanctioned by higher authority, the total estimate has been exceeded by more than 5 per cent., and

(2) when, if the work was sanctioned by the Executive Engineer, the total estimate has been exceeded by an amount greater than that which he is empowered to pass.

The consolidated Completion Statement shows for each work the estimated amount, the outlay and the excess. In cases in which the Completion Statement is utilised instead of a revised estimate (*vide* paragraph 208) the excess is set forth in sufficient detail to satisfy the authority whose sanction is necessary. The Detailed Completion Report gives a comparison and explanation of differences between the quantity, rate and cost of the work executed and those entered in the estimate.

The object of the Completion Statement or Detailed Completion Report is to enable the superior authorities to scrutinise the excess and to sanction it where it is reasonable.

210. Works expenditure involves materials and labour. Materials may be supplied from stores or bought for the work, or provided by the contractor. Store accounts are dealt with in paragraph 216 and in Chapter 22 below. Work may be carried out by daily labour, by piece-work (*i.e.*, work paid for at a fixed rate) or by contract. The last should be entered into in writing and should contain stipulations as to the quantity of work to be done and the time within which it is to be completed. Most contract work is carried out by petty contractors who cannot wait for payments on completion of work and are therefore paid periodically according to work done up to date. Thus, whether work is paid for by contract or at piece-rates, prompt measurement is essential, and of course, measurement of work done is the most essential check in the audit of works expenditure. This check is conducted entirely by the executive. It would be impossible for audit to take any part unless they had a staff of measurers in every division in India to make the original measurements, or a staff in each province to tour throughout it checking measurements. The sole check over these initial measurements is exercised by the Sub-Divisional or Divisional Officer or by the Superintending Engineer who verifies them either by making check measurements or by inspection. The expert knowledge of an experienced Engineer enables him in many cases to detect any very gross overmeasurements or over-payments on inspection and comparison with the recorded expenditure on the work. Audit of Works Expenditure.

211. But executive authorities do not always realise the extreme importance of accurate measurement. There is always a rush of expenditure in March, the last month of the financial year, and cases have occurred in which payments have been made on measurement reports submitted by subordinates whose journals, in which they record work done day by day, indicate that, on the day on which the measurements were alleged to have been made, they were miles away from the site of the work. Suck measurement

reports can have little value, and, if Audit detects such cases at inspections, prompt notice should be taken of them.

Audit. 212. Audit of Public Works expenditure falls under three heads :—

(*a*) audit in the central office ;

(*b*) audit by the Divisional Accountant in the divisional office ; and

(*c*) test-audit at the annual inspection of the divisional office.

213. The audit of works expenditure in the central office is conducted mainly with reference to—

(1) the sufficiency of the authority for incurring the expenditure.

(2) the accuracy of the classification of the charges against the works, persons, services and heads of accounts concerned.

(3) the reasonableness of the rates.

(4) the proof of payment to the correct individual.

(5) the canons of financial propriety.

(A) The first check consists in seeing that the expenditure on the work is covered by a sanctioned detailed estimate for the work as well as an appropriation, and that all special charges which, under the rules, require the sanction of an authority superior to the Divisional Officer are duly sanctioned by such authorities. For this purpose the sanctioning authorities communicate their sanctions to the Audit office individually or in a consolidated monthly statement. The sanctions are first checked to see that they are in order and are then posted in an audit register. The expenditure incurred on each work, month by month, is then posted against the sanction when the monthly accounts are received from the division and a comparison is made between the sanction and the expenditure. Expenditure not covered by sanctions and in excess of sanctions is placed under objection until the necessary sanction is accorded or the expenditure under objection is otherwise regularised by recovery, etc.

(B) The second check consists in seeing (1) that if the charge is debitable to the personal account of a contractor,

employé or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account so as to watch the recovery of the amount due, (2) that the charge is classified to the proper heads of accounts, and (3) the expenditure is incurred in pursuance of the precise objects for which the detailed estimate for the work was intended to provide. The last check cannot be properly exercised in the central office as the detailed estimates which define the objects on which expenditure is to be incurred are not available there. Charges are therefore examined generally to see that there is apparently no misclassification but the detailed check with estimates is left to the Divisional Accountant.

(C) The third check consists in seeing the reasonableness of the rates. Sanctions to contract agreements accorded by officers higher than the Divisional Officer are communicated by them to the Accountant General in such form as to enable that officer to audit the payments on the basis of the rates sanctioned. Similar check against the sanctions by the Divisional Officer is exercised by the Divisional Accountant. Sanctioned rates are further scrutinised as a guard against extravagance as explained in paragraphs 105 and 106.

(D) The fourth check consists mainly in seeing that a properly receipted voucher is sent for every payment. The responsibility for making payment to the person entitled to receive payment is left to the paying officer as in the case of almost all payments not made by the Audit office direct.

(E) The application of the canons of the financial propriety has already been explained in detail in Chapter 10.

(F) Besides these checks each voucher for payment on running account is compared with the last bill to see that up to date and other figures which are dependent on the entries in that bill are correct. The arithmetical calculations of the bills are also checked to the following extent :—

(*i*) Final running account bills in yellow form...cent. per cent.

(*ii*) Other vouchers............ 10 per cent.

As the arithmetical calculations of the vouchers are checked completely in the divisional office under the supervision

of the Divisional Accountant, a percentage check in the central office has been considered to be sufficient.

Divisional Accountant. 214. A trained Divisional Accountant is posted by the Accountant General to each divisional office to assist the Divisional Officer in the discharge of his responsibilities in respect of the accounts of the division. The functions of the Divisional Accountant are three-fold :—

(*i*) as accountant, *i.e.*, as the compiler of the accounts of the division in accordance with the prescribed rules and from the data furnished to him,

(*ii*) as primary auditor, *i.e.*, as the representative of the Audit Department, charged with the responsibility of applying certain preliminary checks to the initial accounts, vouchers, etc.,

(*iii*) as financial assistant, *i.e.*, as the general assistant and adviser to the Divisional Officer in all matters relating to the accounts and budget estimates, or to the operation of financial rules generally.

The Divisional Accountant is expected to see that the rules and orders in force are observed in respect of all the transactions of the division. If he considers that any transaction or order affecting receipts or expenditure is such as would be challenged by the Accountant General if the primary audit entrusted to the Accountant were applied by the former, it is his duty to bring this fact to the notice of the Divisional Officer with a statement of his reasons, and to obtain the orders of that officer. It will then be his duty to comply with the orders of the Divisional Officer, but if he has been overruled and is not satisfied with the decision he should at the same time make a brief note of the case in the Register of Divisional Accountant's Audit Objections, and lay the register before the Divisional Officer, so that the latter may have an opportunity either of accepting the Divisional Accountant's advice on reconsideration and ordering action accordingly, or of recording, for the information of the Accountant General, his reasons for disregarding that advice.

An objection recorded in this register is not considered as finally disposed of until it has been reviewed by the

Accountant General. The Divisional Accountant brings to the Divisional Officer's notice all instances in which subordinate officers exceed the financial limitations on their powers placed by the Divisional Officer or a higher authority. He may further be required by the Divisional Officer to undertake, on his behalf, such other scrutiny of the accounts of the receipts and disbursements of subordinate officers falling within the Divisional Officer's own powers of sanction, as the latter may consider necessary.

He is further expected to inspect the accounts records of subdivisional offices so as to check a percentage of the initial accounts and to bring the defects to the notice of the Divisional Officer. The results of this inspection are placed on record for the inspection of the Accountant General and the serious financial irregularities are reported at once to the Audit office.

As a primary auditor, the Divisional Accountant is responsible for examining the accounts returns of Sub-divisional Officers to see :—

(*i*) that they have been received in a complete state,

(*ii*) that all sums receivable are duly realised and credited to the proper heads of account,

(*iii*) that the charges are covered by sanctions and appropriations and are supported by complete vouchers setting forth the claims and the acknowledgments of the payees legally entitled to receive the sums paid,

(*iv*) that all vouchers and accounts are arithmetically correct,

(*v*) that they are in all respects properly prepared in accordance with rule,

(*vi*) that all charges are correctly classified, those which are debitable to the personal account of a contractor, employé or other individual, or are recoverable from him under any rule or order, being recorded as such in a prescribed account, and

(*vii*) that on the basis of rates sanctioned by competent authorities and of facts (as to quantities of work done, supplies made, etc., or services rendered)

certified by responsible officers, the claims admitted for payment are valid and in order. It is not necessary that the Divisional Accountant should check personally the arithmetical accuracy of all vouchers and accounts, but he is responsible that a cent. per cent. check is exercised efficiently under his supervision.

It is one of the functions of the Divisional Accountant to see that expenditure which is within the competence of the Divisional Officer to sanction or regularise, is not incurred, as a matter of course, under the orders of subordinate disbursing officers without his knowledge.

The Divisional Accountant conducts the detailed audit of muster rolls, and petty vouchers which are not submitted to the Audit office and of all accounts of stores.

He checks the works expenditure with the estimates to ensure that the charges incurred are in pursuance of the objects for which the estimate was intended to provide. In the case of works estimated to cost over Rs. 10,000 the expenditure is recorded by sub-heads (*i.e.*, items of work such as brickwork, etc.) and the Divisional Accountant is responsible for checking the expenditure on each sub-head with the estimated quantity of work to be done, the sanctioned rate, and the total sanctioned cost so as to bring to notice all deviations from the sanctioned estimate.

Check at inspections.

215. The primary objects of the inspection of a Divisional office by an Audit Officer are (*i*) to apply a test audit to such accounts, vouchers, etc., as are not audited in the Accountant General's office or as cannot be completely checked except at a local audit, (*ii*) to see that the initial accounts from which the accounts rendered by Divisional Officers are compiled, or on which they are based, are properly maintained in the prescribed forms, and (*iii*) to see that the Divisional Accountant discharges his duties satisfactorily and is up to the mark.

To attain these objects (*i*) the accounts of one month are test audited with the initial accounts, and other account records kept in the divisional office, detailed estimates and contract agreements, (*ii*) the initial accounts of cash and stock, the measurement books, muster rolls, detailed accounts

of works and other account records for the entire period since the last inspection are inspected and examined generally, (*iii*) the accounts of one or two selected works are examined in detail from the commencement, and all transactions are analysed, and if necessary compared with the details of the sanctioned estimates, and with contract agreements, measurement books, accounts of stores, vouchers and other relevant documents, (*iv*) the results of the Divisional Accountant's inspection of sub-divisional offices, objections recorded in the Register of Divisional Accountant's Audit Objections and generally the results of Divisional Accountant's scrutiny as a primary auditor are reviewed.

In some provinces the contractors' ledger accounts, accounts of rents and of stock and tools and plant are not submitted to the Audit office. In such cases these accounts are also test checked at the inspection.

The inspecting officer is expected not to confine himself to the audit and inspection work referred to above. He is required to avail himself of this opportunity of assisting the officers of the Public Works Department with his advice in matters affecting the accounts or the financial regularity of transactions. He can also find scope for making valuable suggestions to the Accountant General in the direction of economy of the public money.

216. The Audit of Public Works stores, *viz.*, stock, tools and plant and road metal consists mainly in seeing :— Audit of stores.

(1) that the accounts of receipts of stores whether purchased or otherwise acquired and of their issues and balances are correctly maintained ;
(2) that the articles are periodically counted and otherwise examined to verify the accuracy of the quantity balances in the books ; and
(3) that steps are taken to dispose of unserviceable and surplus stores.

The detailed check in respect of (1) is left to the Divisional Accountant. The accounts of materials borne on stock are scrutinised further to see :—

(1) that the balance in hand does not exceed the maximum limit prescribed by Government and is not in excess of requirements for a reasonable period ;

(2) that the materials are priced with reasonable accuracy, and the rates are reviewed from time to time and revised when necessary; and

(3) that the half-yearly balance of stock materials works up to the value balances as per accounts at reasonable rates which should be within the market rates.

The Registers of Stock and of Tools and Plant are audited locally or in the Audit office, as the local Government may prescribe. In the former case the detailed check is left to the Divisional Accountant and test checks are applied at the time of annual inspection. The scrutiny of the accounts of road metal is entrusted to the Divisional Accountant.

Audit of receipts.

217. Besides the audit of expenditure the Audit Department is responsible for auditing the receipts realised by Public Works Officers. The main sources of such receipts are the rents of residential buildings.

In auditing these it has to be seen (1) that the standard rents are correctly determined in accordance with Rule 45 of the Fundamental Rules, (2) that the rent recoverable from each tenant is correctly calculated, and (3) that the rents due are realised.

In exercising the first of these checks the Audit Officer checks the capital cost and sees that the allowance for maintenance and repairs is according to the scale fixed by the local Government and is reasonable. In regard to the second check it has to be seen that the rent assessed is either the standard rent or 10 per cent. of the occupant's emoluments, whichever is less. In cases in which the 10 per cent. limit has the effect of lowering the rent of the building appreciably below the standard rent, the Audit Officer has to satisfy himself that the scale of accommodation supplied does not exceed that which is appropriate to the status of the occupant.

In some provinces the accounts of rents are not submitted to the Audit office. In such cases the second and third checks are left to the Divisional Accountant, and a test check is exercised at the time of the annual inspection of the division. The first check is invariably conducted in the Audit office.

Chapter 21.

Audit of Railway Receipts and Expenditure.

218. Under the Reforms Scheme, with the exception of some light and feeder railways and extra municipal tramways (item 6 (*d*) of part II of schedule I to Devolution Rules) railways in India as a whole are a Central subject and those in which Government is financially interested may be broadly divided into three classes :—

(*a*) Railways owned and worked by Government.

(*b*) Railways owned by Government but worked by companies to whom they have been leased.

(*c*) Railways owned and worked by private bodies under agreement with the Government of India.

219. All receipts and expenditure of railways shown under classes (*a*) and (*b*) form part of the revenues and expenditure of the Government of India, and are subject to the same financial and audit control as other revenues and expenditure of the central Government.

220. The audit of receipts and expenditure of railways owned and worked by Government is performed by officers of the Indian Audit and Accounts Service. In the case of the railways owned by Government but worked by companies, though the audit is governed by the same rules and regulations, the primary responsibility for the audit of the receipts and expenditure rests with the Audit Officers of the companies, and a supervising audit is performed by officers of the Indian Audit and Accounts Service on behalf of the Auditor General to the extent described in paragraphs 273—276.

A.—Expenditure on Construction of new railways.

221. All proposals for expenditure on the construction of new railways are submitted for the sanction of competent authority supported by detailed estimates, and ordinarily sanction is not accorded till such estimate is received and considered.

Audit against construction estimate.

222. The construction estimate for a new railway, after it has received the sanction of Government, becomes the authority of the Audit Officer to pass expenditure on the project up to the amounts sanctioned under the several heads and sub-heads of the estimate, and it is his duty to bring to the notice of the Engineer-in-Chief, or other administrative officer in charge of the work, the fact that the provision under any head or sub-head is being or is likely to be exceeded immediately this becomes apparent. For this purpose he keeps a register in which is recorded from month to month the expenditure actually incurred against the sanctioned provision under each head and sub-head.

223. The Engineer-in-Chief has power, subject to certain limitations, to transfer anticipated savings under certain heads to meet probable excesses under others. If any excesses occur which cannot be regularised by the Engineer-in-Chief, or if the Engineer-in-Chief is satisfied that there is reasonable probability of such excesses occurring, a reference must immediately be made to the Railway Board, accompanied if necessary by a revised estimate, with a full explanation of the causes which have led to the excess.

224. It is important that this should be done as promptly as possible, as the excess may require the sanction of the Secretary of State, and any delay in obtaining this might result in the stoppage of work and consequent loss to Government, or in the Secretary of State's sanction being anticipated, a course to which he, as the supreme authority in whom is vested by statute the control over all expenditure, is much opposed except in cases of real emergency.

Audit against Budget grant.

225. In addition to the control exercised over the total construction expenditure on a railway by means of the construction estimate, there is the further control to be exercised over the expenditure in any year with reference to the budget grant for the year. As in the case of central expenditure generally, section 67A of the Government of India Act which provides for control by the Indian Legislature over such expenditure applies. A grant for the year for capital expenditure on all railways is allotted to the Railway Board which distributes it among the several Railway Administrations.

226. The total grant for construction expenditure on a railway is divided into two parts— Distribution of grant between England and India.

(*a*) the grant for expenditure in India;

(*b*) the grant for expenditure in England.

The latter grant is hypothecated to meet the expenditure to be incurred in England by the Secretary of State, the High Commissioner for India, or the Home Boards of Indian Railway Companies, on the purchase of stores, for which indents have previously been sent forward, or are likely to be sent forward during the year. It is necessary to control strictly transfers between the English and the Indian grants because of the effect such transfers have on the cash balances available in England and in India. Consequently transfers between these grants cannot be made without reference to the Government of India, or, if they exceed a certain figure, to the Secretary of State.

227. In the past there were serious lapses on the grants for total Capital expenditure on railways, mainly due to the difficulty experienced in obtaining the full amount of the stores ordered from England within the period for which the funds have been provided. That period is, of course, the financial year at the close of which all grants lapse. With a view to obviating this difficulty the Secretary of State has approved a system of "Over-Certification" of funds under which indents for stores may be sent forward up to a certain money limit, to be approved by him every year, in excess of the sanctioned English grant for the year, on the assumption that a proportion of the total indents sent forward will not be complied with during the year. The amount of such uncomplied-with indents is thrown forward to the following year and so becomes a first liability against the grant for that year. Over-Certification.

228. As a further means of ensuring that the grant of a year is fully spent, the Railway Board is empowered to authorise the transmission two years ahead of indents for rolling stock, girders, and other stores which owing to their nature cannot be obtained from manufacturers for some considerable time after the orders have been placed; provided that the total amount of such advance indents does not exceed £5 millions in any one year.

229. There are two main objects in the close watch over expenditure against grant under the Capital account, namely to ensure on the one hand that the total grant for all railways shall not be exceeded, and on the other to minimise the lapses on the grants of all the railways combined.

230. The Audit Officer accordingly should see that the grant allotted to the railway is not exceeded, and should assist the Agent and the Heads of Departments in the matter by issuing warnings to them as soon as the records show that there is a possibility of an excess over the sanctioned grant, or that portion of it entrusted for expenditure to the Head of the Department concerned. He should also bring to the notice of the administration the likelihood of any portion of the grant not being spent during the year, in order that the amount no longer required may be definitely surrendered to Government to be placed at the disposal of some other railway which is in urgent need of additional funds.

231. The means by which this object will be attained are a frequent and critical examination of—

(*a*) The results brought out in the monthly statement known as Form D, which indicates as accurately as possible the progressive expenditure to date and the probable requirements.

(*b*) The progress of expenditure in England against indents sent forward for compliance.

The responsibility for keeping the expenditure within the grant rests, however, with the authority administering the grant and not with the Audit Department.

Audit of expenditure in a construction division.

232. The expenditure brought to account by a Divisional Officer of a railway under construction is audited on lines which approximate very closely to those which have been indicated in Chapter 20 above in respect of expenditure brought to account in an ordinary Public Works division.

B.—Audit of expenditure on open lines.

233. As in the case of lines under construction, before any payment can be made, the work in respect of which the

claim is put forward must have been sanctioned by competent authority, and funds must exist in the budget estimates of the year to cover the charge.

234. Expenditure on new works and improvements on open lines chargeable to capital is incurred against the construction estimates of works the cost of which amounts to Rs. 18 lakhs and over in each case and against ordinary detailed estimates for works costing less than Rs. 18 lakhs each. A lump sum budget grant divided into grant for expenditure in India and grant for expenditure in England is allotted to each Railway Administration to meet the capital expenditure during the financial year on all the works, and appropriation audit is performed in accordance with the principles described in paragraphs 229-231.

235. As regards ordinary revenue expenditure, from the total sum voted by the Legislative Assembly for expenditure on all the railways during the financial year, a budget grant is allotted by the Railway Board to each Railway Administration to cover outlay of all description during the year against which the Agent is competent to authorise all outlay subject to the condition that specific sanction of competent authority must be separately obtained to items of expenditure on establishment or on works where under rules such sanctions are necessary. The fact of a charge which requires a special sanction having been included and passed in a budget is no authority for its payment.

236. The main cause of difference between the system of accounting for expenditure on open lines of railway and for all other forms of Public Works expenditure is that departmental officers have no concern with actual payment, which is done in the Audit office after pre-audit of the bills. Thus the duties of departmental officers on open lines are as a rule confined to seeing that claims are correctly prepared both as to quantity and quality of work done, that proper records are kept of the initial transactions, and that bills are punctually submitted to the Chief Auditor for audit and payment.

237. The bills received from departmental officers, consisting of bills for pay and allowances, muster rolls, and

contract certificates (or bills), for payments to staff, labourers, contractors, etc., are subjected to audit in much the same manner as such bills received from other departments are audited.

238. There is a modified form of audit of railway establishment bills, but the difference is not sufficiently important to warrant detailed explanation.

239. Before submission to audit, the bills, so far as they relate to Revenue charges, are posted into departmental allocation registers; and so far as they relate to Capital expenditure, into the detailed works registers maintained in district engineering offices. The object of these registers is to keep Heads of Departments informed of the progress of expenditure against the estimates and grants, and they are required to be sent to Audit once a month for reconciliation with the corresponding allocation and works registers maintained in the Audit office, which are posted from the audited bills.

Workshop expenditure.

240. Workshop expenditure is recorded under suspense heads of the Capital account which is relieved only when actual issues are made to Capital and Revenue works and services. The primary business of the workshops is to manufacture articles for the Locomotive, Carriage and Wagon and other departments of the Railway. No Profit and Loss account is kept, but the actual expenditure on manufacture, so far as this can be gauged, is transferred to the accounts of the consuming department concerned. Here the essential functions of audit are to ensure the correct calculation of the cost of each job, so far as this is possible without undue expense, and to watch the recovery of this cost from the department or person for whom the work is done.

241. Provision for expenditure on workshop labour is made in the annual budget and it is the duty of Audit to see that the expenditure is kept within the appropriation.

242. All work done in a workshop except ordinary maintenance and repairs must be carried out against a duly sanctioned estimate such as is required in the case of engineering Capital and Revenue works. The estimates are,

of course, treated purely as estimates, the actual cost of the work being charged to the departments concerned. When work is undertaken for private parties the amount of the estimate must be deposited before the work is taken in hand. Estimates for petty jobs are not necessary within certain limits fixed by the Agent.

243. Workshop expenditure falls under two heads—

(a) Cash outlay.

(b) Stores drawn from stock to be used up in the process of manufacture.

244. Every requisition for work is accompanied by a Workshop Order, so that the first essential account form is the maintenance of an "Order Book" showing work undertaken, the time taken in the completion of the job, and what the job has cost. The register is not submitted to the Audit office, and should, therefore, be scrutinized on the occasion of each periodical inspection by an Audit Officer.

245. Cash outlay consists of payments for labour only, the initial accounts of which comprise a daily muster roll, an allocated abstract of labour, and a register of unpaid wages. The muster rolls or labour pay-sheets are submitted to Audit for payment, and the amounts due are carried into the allocated abstract of labour which shows the total daily expenditure against each particular job. The stores consumed in the process of manufacture are in a similar manner carried into an allocated abstract of stores used on each particular work.

246. The charges against each job are collected together in what are known as Outturn Statements.

247. In addition to the direct charges for labour and stores, there are certain items of expenditure of a general nature, known as "general charges" such as wages of mechanics, apprentices, mistries, bhisties, sweepers, gate-keepers, etc., which cannot be directly allocated to any particular job. Expenditure of this nature is distributed proportionately over the several works entered in the Outturn Statement.

248. These statements are then "accepted" by the departments of the railway, or private parties, as the case

may be, and the value of the work done is credited to "Workshop Suspense" on the authority of such acceptances.

249. Audit has no means of verifying directly the cost of each work. It has to accept the distribution of the various charges over the various works vouched for by the executive and accepted by the persons for whom the work is done. It is able to exercise, however, a certain check on the total charges for labour and stores through the monthly workshop Account Current.

250. The balance of this Account Current represents the cash and stores expended on jobs awaiting adjustment. This balance must be analysed and full details posted in a register to facilitate a regular and systematic clearance of the "Workshop Suspense" Account. The proof of the balance must be complete at the end of each year and a certificate to this effect given in the Finance Accounts.

251. The audit of recoveries is comparatively simple as the vast majority of these are from other departments and the recovery in such a case is made by book adjustment in the Audit office. The rule of prepayment for work done for private persons simplifies the audit of cash recoveries.

C.—*Audit of Railway Receipts.*

252. The revenue of railways is earned almost wholly from the transport of passengers and merchandise and is realised through the agency of booking and goods clerks employed at stations where the initial transactions are brought to account.

253. The rates and fares in accordance with which traffic is accepted have to be kept within certain maxima and minima fixed by Government.

254. In return for payments received, railways issue tickets or vouchers, differing in form according to the description of traffic carried, which entitle the holders to the services of the railway for the conveyance of passengers or goods. These vouchers form the basis of the railway accounts of receipts. Only one payment is made even if the services of more than one railway are utilised.

255. The essential duty of Audit in this matter is simple. It has to see—

(1) that the person to whom the service is rendered pays the proper amount:

(2) that the railway servants receiving payment correctly account for the same:

(3) that, if more than one railway renders the service the receipt is properly distributed between them.

256. In the case of passenger traffic the first duty is facilitated by having the fare printed on the ticket in most cases. In the Audit office a certain percentage of the amounts entered on the blank tickets and on the goods vouchers are checked. It is further necessary, however, to ensure that no passenger travels without a ticket, that he does not travel in a carriage of a class higher than that for which he has paid, and that no goods are allowed to be removed from the railway until their carriage has been paid for. These have to be checked by travelling ticket inspectors and by officers inspecting stations. The former on some lines are under Audit, on others they are under the Traffic Department of the Railway.

Check that correct amount is paid.

257. The second duty above-mentioned is performed by an elaborate system of accounting.

Check that servant receiving dues correctly accounts for same.

In the first place the tickets supplied to stations by the Audit office are, as a precaution against fraud, machine-numbered in progressive series. The station master or booking clerk is held personally responsible for the stock of tickets in his custody and all missing numbers which cannot be properly accounted for are placed to his debit.

The most important original record at a station is the Trains Cash Book from which all other returns are compiled.

258. Tickets issued by station masters are paid for at the time of issue either in cash or by credit note.

The amount so collected is entered, train by train in the daily cash book of the station, the receipts being classified under the various descriptions of coaching traffic.

On the departure of each train the booking clerk balances the cash book and compares the balance with the money in the till.

The cash is then placed in the safe, as receipts from each train must not be retained in the till after the cash has been checked with the Trains Cash Book.

259. The entire collections of the day, represented by coin, cheques, currency notes, etc., must be sent to the Cashier of the railway by the first train passing the station in which a travelling cash safe may be conveyed after the day's work is finished, and no balance of cash may be retained by a station master without special orders.

The money is sent under cover of a remittance note and the Cashier's acknowledgment is recorded with the station counterfoil of the remittance note.

260. In addition to the "Trains Cash Book" a "Parcels Inwards" book is kept up to record all parcels received at a station for delivery whether the parcels are "Paid" or "To Pay." The receiving station is responsible for the recovery of all undercharges on parcels before delivery and the entry of the recoveries in the Cash and Parcels Inwards books.

261. The principal coaching returns submitted to Audit are—

(1) Classification of Passengers.

(2) Balance sheet.

Monthly classification of passengers.—This return shows the receipts of the month on account of passenger fares collected. It is checked with the collected tickets sent to Audit, the main object being to see that all tickets have been properly accounted for. The check is made by comparing the opening numbers of the current month's return with the closing numbers of the previous month's return. The highest number of each class of tickets issued is then obtained from the collected tickets, and the difference between the opening numbers and the highest numbers represents the number of tickets to be accounted for by the station.

262. The Coaching Balance Sheet enables a watch to be kept over the prompt realisation of outstandings. The debits

consist of the totals of the various returns submitted by the station, and the credits of the cash sent to the Cashier. The balance represents the amount of outstandings to be collected by the station, such as freight and demurrage charges on undelivered parcels, etc. All errors discovered in checking, and the correct balance, are intimated to the Station Master and the next balance sheet of the station has to open with the "audited" or correct balance.

263. Although the form used and returns prepared in accounting for goods receipts may differ from those used for coaching, the principles remain the same. The money collected for freight is entered in the Goods Cash Book. Goods are despatched under "Invoices" and the station is required to keep up "Goods Outwards and Inwards" books in which full particulars of invoices are entered. From these primary books returns are prepared and submitted to Audit together with the monthly "Balance Sheet." The principles to be observed in checking Way-bills, Parcels Returns and the Coaching Balance Sheet apply equally to the checking of Invoices, Goods Returns and the Goods Balance Sheet.

Check that each railway receives proper share.

Goods Traffic.

264. *Division Sheets.*—With reference to clause (3) of paragraph 255 above the earnings from traffic of every kind carried over two or more lines are divisible between those lines, though only one actually receives the cash. In this division, as a general rule each railway is to receive the amount it would have received had the traffic been carried only over the portion of its own line traversed. Any exception to this rule is a matter of private agreement between railways, and will find a place in their respective working agreements. The division is made on what are known as "Division Sheets" exchanged between Railway Audit offices, and is based on the following principles:—

(*i*) that each railway carries out the adjustments or in other words clears the accounts of such traffic with each other railway over which the traffic was carried;

(*ii*) that on the forwarding railway devolves the adjustment of all coaching traffic except Parcels; and

(*iii*) that the adjustment of Parcels and Goods traffic devolves on the receiving railway.

265. The division sheets comprise:—

(*i*) Statements showing the proportions due to *Foreign Railways** only, on account of forwarded traffic in passengers, luggage, horses, carriages and dogs.

(*ii*) Statements showing the proportions due *both to Home and Foreign Railways*† on account of received goods and parcels traffic "Paid" and "To pay."

The original way bills and invoices have to be attached to the division sheets in support of the entries appearing therein.

266. *Audit of Division Sheets.*—The audit of division sheets and their supporting documents is performed on the principles of what is commonly known as the Clearing Association Scheme under which no two railways should check the same document relating to through traffic between the same two railways. The object of the scheme is to reduce work in Railway Audit offices by the abolition of a double check of the traffic accounts interchanged by railways, and this is attained by the careful audit by the forwarding railway of the through traffic accounts prepared by it and the substitution by the receiving office of a test audit for a complete audit.

Traffic Book.

267. The Traffic Book brings together the whole of the traffic earnings of a railway both local and foreign under the several prescribed heads of the home line stations, with the various debits and credits of each, and also records the progress of adjustment of through traffic transactions with foreign lines.

268. The Traffic Book is kept in two parts. The items comprised in the first part, representing amounts for the realisation of which the home line is responsible, are—

(*a*) The entire local coaching and goods traffic.

(*b*) Outwards "Paid," and inwards "To Pay," foreign traffic.

* The *Home Railway* is the railway preparing the division sheet in question.

† The *Foreign Railway* is that to which the division sheet is sent.

The postings in the first part are made from the station balance sheets.

The second part relates solely to foreign traffic for the realization of which foreign railways are responsible.

The items comprise—

(*a*) Foreign outwards "To Pay" and inwards "Paid" traffic in parcels and goods.

(*b*) Foreign inwards coaching traffic under passengers, luggage, horses, carriages and dogs.

The second portion exhibits the apportionments on account of the above traffic to the home line, and the debits and credits to the foreign lines. The entries for part II are taken from the division sheets. From the Traffic Book the figures of receipts under the prescribed heads of account are carried into the Journal, and finally into the General Books of the Railway.

269. The check exercised by the Audit office is necessarily limited to an examination and comparison of the returns, etc., sent in by stations. In order to exercise a check over the initial accounts at stations which do not come under the scrutiny of Audit a special staff of Audit Inspectors is maintained. These Inspectors are constantly moving along the line and are required to devote their attention to seeing that the books and records are kept in a proper manner, that the cash arrangements are in order, and that irregularities taken up are promptly attended to. Travelling Inspectors of Accounts.

D.—*Audit by Government Examiners over accounts maintained by Companies working railways for Government.*

270. The first railways built in India were constructed and worked by Companies under a firm guarantee from the Secretary of State of 5 per cent. on the Capital and a fixed rate of exchange. In return he was to take a half share in the surplus profits. Original contracts.

271. The guaranteed interest and rate of exchange resulted in considerable losses to Government. Advantage was accordingly taken of the provisions of the contracts

under which these lines could be purchased, either by cash payment or by means of annuities terminable after a number of years, and all such railways are now the property of the State. Some of the purchased lines (portions of the North Western, Oudh and Rohilkhand, and Eastern Bengal Railways) are being worked by direct State agency; while the management of the others (East Indian, Great Indian Peninsula, Bombay-Baroda and Central India, Madras and Southern Mahratta, and South Indian Railways) has been entrusted to working Companies constituted under contracts the conditions of which are much more favourable to Government than those entered into with the earlier Companies. The position of Government with respect to these Companies is that Government are the owners and lessors of the lines, and the Companies are the working agents or lessees.

Existing contracts.

272. The broad features of the contracts entered into with such Companies are:—

(1) That the Company shall have a small amount of share capital in the concern, on which interest at rates varying from 2 to $3\frac{1}{2}$ per cent. is guaranteed by the Secretary of State out of the revenues of India.

(2) That the Company shall receive a share of the surplus profits earned by the Railway after meeting all payments for interest on the Capital at charge, such share being based either on some fixed proportion or on the amount of Capital contributed by Government and the Company, respectively;

(3) That all sterling transactions shall be taken to account in rupees at the monthly average rate of exchange. In the case of the East Indian Railway Company, the rate is fixed in the contract at 1*s*. 8*d*. to the rupee.

(4) That the Company shall keep the undertaking, its rolling stock, etc., in thorough repair, and in good working condition, to the satisfaction of the Secretary of State.

(5) That on the determination of the contract Government will repay to the working Company the amount of its share capital at par.

273. These conditions govern the nature of the control to be exercised by Government over the operations of such Companies. The Government, in addition to their interest in the correct division of profits, are concerned to see that the property, of which they are the owners, is kept in good condition and repair, and that all fresh capital put into the line is profitably and economically spent. The Companies, on the other hand, are concerned merely in making the most of the railway as a dividend earning investment during the limited period of their tenure.

Points on which Government have to protect their interests

274. A close check and supervision is accordingly required on behalf of Government in the following directions:—

(1) To ensure the proper upkeep and maintenance of the railway, so that, on determination of the contract, it may be handed back in as good condition as when it was made over to the Company.

(2) To examine all proposals for fresh expenditure of capital and check any tendency to extravagance in that direction.

(3) To watch the proper application of funds to Capital purposes for improvements, and to Revenue purposes for upkeep and maintenance.

(4) To verify the correctness of accounts and of the division of profits.

275. The first of these checks is exercised through the Government Inspector, whose duty it is to carry out a periodical inspection of the permanent way, works, rolling stock, etc., and to certify at the close of each half year that the undertaking has been kept in thorough repair, and in good working condition. Such an inspection is primarily required in the interests of the public safety under the Railways Act, but the certificate then given also serves the purpose of the clauses in the contracts relative to the maintenance and upkeep of the undertaking.

The second check is exercised through the examination of estimates which, in the case of all but the smaller works not exceeding Rs. 1,00,000 in cost, are required to be submitted for the sanction of Government.

The third and fourth checks are exercised primarily by the Government Examiners of Accounts attached to the offices of the various railways worked by Companies.

276. Thus the audit at present exercised by Government Examiners is in those directions in which the interests of Government and of the Companies are divergent, and chiefly in regard to the correct allocation of expenditure between Capital and Revenue, on which too much stress cannot be laid, since improper loading of the capital account means that the Company gets an advantage on the Revenue side at the expense of a permanent burden cast upon Government. Again, it sometimes happens that there may be a conflict of opinion between the Government Examiner and the Company's officers as to the interpretation of some clause in the contract which is obscurely worded. In all these matters he is the immediate representative of Government, who have to rely largely upon him for the due safeguarding of their interests. Thus his task is a very responsible one.

Branch Line Companies.

277. The preceding remarks relate to Companies working State railways on behalf of Government. Another class of Company of more modern growth, the development of which is rapidly progressing, is the Branch Line Company, the transactions of which do not pass through the Government accounts at all, and in which Government are only indirectly interested to the extent of the guarantee of interest on rebate, a share in the surplus profits, and as being able to purchase the line on expiry of the period for which the contract is to run.

Such Companies are formed for the construction of small branches or feeders to an existing system, by which they are usually worked, the lines being the property of the Companies which build them.

278. The principal advantage from the Government point of view of the construction of railways under Branch Line terms is that the financing of such lines falls outside the

Government programme of railway construction, thus enabling the funds available in any year to be entirely devoted to extensions on a larger scale of the existing railway systems owned by Government, or in carrying out the necessary additions or improvements to open lines.

279. The audit control exercised by Government over the transactions of these Branch Line Companies is not so stringent as over the large Companies working State railways. Thus only a periodical test audit is made of the accounts of the Companies, which are countersigned by a Government Examiner of Accounts in the ordinary way. Estimates for all Capital expenditure are required, however, to be submitted for sanction by Government, in view of the Government's eventual interests in the purchase price of the line, and such estimates are dealt with in the same way as the estimates of the larger Companies working State Railways. Audit control.

Chapter 22.

Stores Accounts.

280. The audit of stores accounts of State Railways on behalf of the Auditor General is provided for in clause (*ii*) of Rule 12 of the Rules framed by the Secretary of State in Council under Section 96-D(1) of the Government of India Act.

281. Whenever valuables have to be retained for any time in the custody of Government servants, stores accounts have to be maintained. The essential points of such account are simple. The difficulties arise from the very large numbers of articles kept in a large store yard, and from the need of simplifying the procedure without lessening the efficiency of check.

Essential points of Stores Audit.

282. A Store Account is a record of all articles brought into, and sent out of, store, and the essential points to check are—

(1) That every article purchased or otherwise obtained for store is entered as a receipt in the store account.

(2) That the store-keeper holds a proper quittance for every article shown in the store account as issued.

(3) That the store-keeper can produce the articles shown in the store accounts as the balance in his possession.

283. The sellers of articles purchased for store may be relied upon to obtain payment from Government, and such a payment must appear as expenditure in some Government account. In the same way, if an article brought into store has been obtained from some other Government department and that department has obtained its quittance from the store-keeper, the transaction must appear in the departmental account and also in the cash accounts of the Store Department. Thus, for every article brought into store there must be a debit in a Government account, and check (1) is exercised by tracing for every such debit an entry of the receipt of an article in the numerical store accounts.

284. Other points which have to be watched in audit in connection with purchases of stores are :—

(*a*) That the rates paid agree with those shown in any contract or agreement that may have been entered into for the supply of the stores.

(*b*) That there is proper sanction for the purchase.

(*b*) involves the application of elaborate rules which the Secretary of State has sanctioned determining the classes of stores which may be purchased in India. These rules, it may be noted, are not applicable to Companies which work State Railways. They are free agents as regards purchase of stores. The Stores Purchase Committee have however recommended to Government in paragraph 222 of their Report that when new working contracts are framed, opportunity should be taken to require the Railway Companies working State Railways to conform to the State Railway system and procedure.

285. Check (2) is two-fold: it is a comparison of the receipts of the persons to whom the stores have been issued with the entries of issues : it is also a check to ensure that the persons to whom the stores have been issued are authorised to obtain those stores. Such authority is to be found in departmental orders.

286. Check (3) is carried out by counting the numbers of each article in store and comparing the result with the account. A Collector counts his cash and his balls of opium in the treasury every month; he verifies his stamps once every six months. Similar verification occurs whenever there is a change of officers. The verification of stock in a large railway store yard is a big business, which is carried out by a permanent establishment of stock verifiers always at work. An important point to remember here is that the verification must take place in the presence of the officer immediately responsible for the custody of the valuables.

287. Very valuable work can be done by Audit in connection with stores. The value of the stores on the Government railways in India is about 16 crores of rupees, so that Government has had to borrow this sum of money in order to obtain these stores, and has to pay interest on this sum. Stores a lock-up of capital: therefore to be kept as low as possible.

Thus stores represent a lock-up of capital, which is always unjustifiable unless essential. It is, of course, essential to have always available for immediate use large quantities of railway stores ; but the exact amount that has to be considered essential is always a matter for discussion, for departmental officers usually desire to have such an accumulation of stores that every possible eventuality can be met.

Again stores for which no use can be found ought to be sold before their value deteriorates.

288. The Chief Auditor of each State railway writes an annual report on store balances in which he mentions any stores which, in his opinion ought to be sold or otherwise disposed of, and any indents which he considers to have been in excess of requirements, and comments on the increase or decrease during the year in the balances and any need for further reduction.

e
ers.

289. A detailed description of the indent, by which an officer obtains stores from the yard, of the receipt he gives therefor, and of the ledgers in which the transactions are recorded, would be out of place in this manual. I must mention, however, that two sets of ledgers are maintained on railways—numerical card ledgers in the store yards, in which transactions are recorded in numbers only, and value ledgers in the account office, in which transactions are recorded both in numbers and in values. These ledgers have to be periodically checked and reconciled.

290. The receipts into stores are priced from the bills or invoices while the issues from stores are priced from the published price lists of the Stores Department. The price entered therein for any article is always based on the average price of that article as shown on the receipt side of the priced ledger. But that average price—otherwise called the "Book Rate"—will vary with every fluctuation in purchase price, and it is impossible to revise the published price list according to every fluctuation of the "Book Rate." The price list, however, ought to be revised whenever the variation in price is serious.

Adjustments between Capital and Revenue in Railways.

291. Stores are required, almost entirely, for railways for which Capital and Revenue accounts are maintained. It is often impossible to say whether the cost of the work for

which certain stores are required will eventually be debited to Capital or to Revenue or to both; so all initial expenditure on the purchase of stores is debited to Capital. Whenever, then, stores are issued to a work the expenditure on which is being debited, in the first instance or finally, to Revenue, the value of such stores has to be credited to the Capital and debited to the Revenue account. The value of these adjustments between Capital and Revenue is enormous; thus on the North Western Railway in 1912-13 it amounted to nearly $2\frac{1}{2}$ crores of rupees. It is important, then, that these adjustments should be recorded promptly and accurately in the accounts. Unfortunately, this rule is not always followed; the budget system tends to induce a desire to make the actual results of the year conform as closely as possible to the grant, and the accounting for these adjustments has sometimes been manipulated in order to work for this end. The general principle, of course, is plain. The accounts should show the transfer from Capital to Revenue as having been effected on the date on which the material was used for Revenue purposes and any departure from this principle violates the fundamental rule of all accounts that they are to be a statistical presentation of fact.

292. The evils of such manipulation were recognised, and orders on the subject have been issued to all Railway Administrations as follows:

Permanent-way and Other Engineering Materials.

(*i*) The debit to Revenue in the books of the Railway for any month should be the cost of the materials actually placed in the line or used on works *plus* all charges for labour.

(*ii*) Adjustments on account of credits to Revenue for the value of meterials taken out of the line or released from works should be made when the stores are actually brought on to the Imprest or "Materials at site" Account, or when they are taken over by the store-keeper and brought on to the stores books.

Workshop Expenditure.

(*iii*) All expenditure incurred during a month on maintenance and renewals of locomotive engines and machinery,

and repairs and renewals of vehicles, should be charged off to final heads of the Revenue Account for that month, even though the job should not be complete.

(*iv*) Expenditure on important Capital Works for the Locomotive or Carriage and Wagon Departments, such as the construction or the erection of rolling stock or of plant, should be charged off monthly against final heads of account. Expenditure on less important Capital Works (*viz.*, works estimated to cost less than Rs. 5,000*) for the Locomotive or Carriage and Wagon Departments, and on works both Capital and Revenue for other departments of the home line, which, as a rule are of a trifling character, need not be charged off till completion of the work.

Adjustments between Capital and Revenue of expenditure on mixed works.

(*v*) All expenditure, specifically provided for in an estimate for mixed Capital and Revenue Works as chargeable separately to Capital or to Revenue, should be adjusted to such accounts as incurred.

(*vi*) Expenditure which is chargeable to Capital and Revenue in certain fixed proportions, *e.g.*, renewals of vehicles chargeable on the floor area basis, or renewals of permanent-way chargeable on the weight of material, should be proportionately debited monthly between Capital and Revenue.

Note 1.—In cases where the charge to Capital on the proportionate basis is limited to the difference in cost, a share of the monthly expenditure calculated in the proportion which the capital share of the cost bears to the entire cost should be debited to capital.

Note 2.—In the case of works estimated to cost not more than Rs. 25,000, the debit to Revenue of its share of the cost of the work may at the discretion of the Agent be deferred till completion of the work.

(*vii*) The write-back to Revenue of the original cost of works dismantled and replaced should be made not later than the date of completion of the new work.

*Agents may, at their discretion, fix a lower limit.

(*viii*) Fictitious adjustments should never, under any circumstances, be made for the purpose of utilising or working up to grants.

Note.—In exceptional cases, debits to Revenue in the accounts of a year for value of materials which have bee npaid for, but have not arrived in India in that year may be allowed by the Railway Board.

Chapter 23.

Special features of Posts and Telegraph Audit.

293. Much of the expenditure in these departments is on account of pay and allowances, contingencies and works, and the audit procedure described in the relevant chapters above applies to such expenditure in these departments also.

294. A brief reference is necessary to the audit of receipts and of Money Order, Cash Certificate and Savings Bank transactions.

295. The stamps affixed to letters, parcels, messages, etc., represent 70 per cent. of the revenue of the Post and Telegraph Offices. Stamps are sold at the civil treasuries, either direct to the public or to vendors, and the necessary credits are afforded to the departments through the civil accounts. The duty of the departmental officers is confined, therefore, to seeing that stamps of the proper value are affixed to letters, parcels or telegrams and that all stamps are properly defaced with date stamps so that they may not be available for use again. In the case of the Telegraph Department, however, the Check Office at Calcutta undertakes a test audit of the messages transmitted throughout India, with a view to see that stamps of the proper value have been affixed and properly defaced.

296. There are, however, several heads under which revenue is received in *cash*. These are receipts from other Postal and Telegraph Administrations in settlement of message account, rents for wires and instruments leased to Railways and canals, rents and royalties for telephones, recoveries from Guarantors and Trunk Call fees in the Telegraph Department.

297. Apart from Money Order and Savings Bank transactions, the following special duties are undertaken by Audit in connection with Post and Telegraph Accounts.

Telegraph Department—

(*a*) Dues on the 'Settlement Account' with other Telegraph Administrations for traffic exchanged are calculated in the Telegraph Check Office.

(*b*) The Telegraph Department constructs and maintains all the telegraph lines and wires which run alongside the railway lines and canals. The wires necessary for the railways for their own administrative telegraph system are leased to them, and rents are recovered from them at a fixed annual rate per mile of wire. Instruments for use of Railway and canal offices are also supplied by the Telegraph Department on payment of rents. The executive officers supply details of the wire mileage and also on account of different kinds of instruments supplied to the Audit office which calculates the rent and arranges for the recovery of the Revenue by book transfer with Railway and Civil Audit officers concerned.

(*c*) Telegraph offices are also opened at the instance of a local Government or Administration, Indian State or private person or a body of private persons, on an annual guarantee to protect the Department against loss for working and maintaining them. Bills are prepared annually by the Audit office on data furnished by the executive and adjusted by book transfer or recovery in cash as the case may be.

(*d*) Payment for telegrams is made nearly always by stamps, and the same kind of stamps is affixed both to telegrams and to letters. The stamps are issued from treasuries as postal stamps and it is impossible to maintain an accurate account of the use of such stamps for postal and for telegraph work respectively. Thus Revenue obtained from the sale of such stamps is credited, in the first place, to the Postal Department and, in order to work out the amount of Stamp Revenue which ought to be transferred from the accounts of the Postal to those of the Telegraph Department in respect of such stamps, the Check Office estimates the Message Revenue for the year from an actual count of the value of the messages despatched

for two selected weeks as indicated by the stamps affixed to them.

(e) Telephone systems are expanding rapidly and in order to work out the financial result of each telephone system or trunk line, a detailed Profit and Loss Account is maintained in the Telegraph Audit office. The receipts, on account of telephone rents and Trunk call fees, are also checked by the Audit office.

(f) The audit and account of the receipts and expenditure of the Indo-European Telegraph Department which is under the administrative control of the Director-in-chief, India Office, London, acting under orders of the Secretary of State for India in Council, are also dealt with by the Telegraph Audit office.

(g) The audit of accounts of the Store Department and workshops, is also dealt with by the Telegraph Audit office.

(h) The audit and account of Radio offices and expenditure in connection with wireless telegraphs are dealt with by the Traffic and Engineering Audit offices.

Postal Department—

(a) Receipts on account of premia for Postal Life Insurance Policies are checked in a special branch of the central office under the Accountant-General, Posts and Telegraphs. Audit is responsible for seeing that policies are issued strictly according to rules, that rates for premia are fixed in accordance with Government orders and are regularly recovered, that the rules governing lapses are followed and that final claims are fully audited before payment.

(b) The Post and Telegraph Audit offices undertake a test audit of service books. In Civil offices the executive officers are responsible for the upkeep of the service books of their subordinates and certify on bills that leave has been granted

strictly according to rules and noted in the service books. In the Posts and Telegraphs Department, however, the audit of service books forms part of the duty of Audit Officers during, and they are examined at the time of, inspections.

298. *Money Order Transactions.*—In the Cash Accounts received from head post offices Money Order transactions are entered in lump under special debt heads, the figures relating to payments being classified according to the month of issue. They are accounted for in detail in the Audit office under a special procedure. Audit consists in seeing that for every money order paid there is a corresponding credit at some office of issue, and that there are no excess or double payments. Every head office sends periodically an Issue List in which the money orders issued by it and the commission received are entered in detail. The commission entries are fully checked in audit. Paid Lists are also submitted periodically in which all payments made are entered and supported by payees' receipts.

299. The enormous number of Money Order transactions renders it necessary to divide the vouchers into suitable compartments, for facility of audit, and to enable the balances outstanding to be verified with some degree of certainty. This is secured by regarding each month's issues as a separate unit. The payments, too, made in any month are separated according to the month of issue, and so separate Paid Lists are received according to months of issue for the payments of the month. There are thus twelve separate receipt and payment heads in the ledgers, and the credits on account of money orders issued in one month in a given circle form a distinct compartment in the accounts, and the payments or debits are classified against it. The balances of each month's issues are thus arrived at. The work may be said to have been satisfactorily performed when the particular money orders composing this balance can be identified.

300. The vouchers received with each Paid List are sorted and arranged according to the office of issue and serial number, and then debit checking is undertaken. This consists in

marking off, in the Issue List, every money order for which a receipt of payment is available. After the payments for three months have been thus debit-checked against the Issue List of any month, the outstanding unpaid items are extracted. The totals of these items, if the work were done accurately, should agree with the balance on the books for that month. In practice, however, there are always differences which are usually due to misclassification of money orders against months or circles of issue, or to errors in totalling. Steps are taken to secure a further agreement, and any differences that continue after a year are written off with the sanction of Government. A large staff was formerly employed for the reconciliation of the differences in the balances, but as the cost of the establishment was considerable and as the reconciliation was never complete, this procedure has been stopped. The unexplained differences are small when compared with the volume of money order transactions, and are now written off.

301. A money order remains current for the month in which it is issued and for the following month; thereafter it becomes what is technically called "void" and its value debited against its issue by *per contra* credit to the head "void money orders." It can be re-issued for payment to the party concerned under the authority of the Audit office. The value lapses to Government if it remains unclaimed for 3 official years.

302. Money orders are also exchanged with foreign countries and many Indian States through certain specified Head Post Offices known as offices of Exchange and their accounts adjusted by the several postal Audit offices.

303. *Savings Bank Transactions.*—The transactions of Savings Bank like those in respect of money orders are entered in the Cash Account under a debt head and accounted for by a special procedure. The transactions are very numerous, there being more than a million and a half depositors with an aggregate balance of about twenty-three crores of rupees. Audit offices maintain personal ledgers in respect of each depositor in which all deposits and withdrawals are posted, and head office ledgers, in which the monthly transactions of the head office are entered in lump. These

ledgers are in addition to the ledgers kept in the Head Post Office. To ensure the accuracy of the posting of the personal ledgers, monthly Ledger Abstracts are compiled from the personal ledgers of the month's deposits and withdrawals, and the totals are agreed with the figures shown in the accounts and with those shown in the Head Office Ledgers.

304. The Journals of Savings Bank transactions received from the Post offices are checked to see that the details work up to the totals entered in the monthly accounts, that all withdrawals are supported by receipts and are in accordance with the rules governing withdrawals from the several classes of Savings Bank accounts and that transfers of accounts from one head office to another are duly accounted for.

305. A statement of interest and closing balances on the 31st March is prepared annually from the personal ledgers of each head office. Differences are reconciled by means of the compilations made for the monthly Ledger Abstracts. The unit of work is a volume of the personal ledgers, and the difference is traced into a particular volume and then the entries reviewed in detail. This work of annual agreement is of great importance as it secures the correctness of the accounts of individual depositors.

306. *Cash Certificate transactions.*—The transactions relating to cash certificates are entered in the cash account under a separate head and accounted for by a special procedure. The Audit office maintains issue registers by denominations in respect of each head office in which the serial numbers of all cash certificates issued and discharged by that office and by the sub-offices under it are posted. It also issues acknowledgments for cash certificates kept in the Accountant General's safe custody which are posted in the Register of Acknowledgments issued. The total postings and discharges as entered in these two registers are compiled in monthly proof sheets and the figures agreed with those shown in the head office balance sheet in which the monthly transactions of head offices are entered in lump.

307. Audit consists in seeing that the details of the lists of cash certificates issued and discharged received weekly

from each head office work up to the totals entered in the monthly cash accounts, that all discharges are supported by vouchers, that the amount payable on discharge has been correctly calculated with reference to the date of issue and that the cash certificates are outstanding in the issue registers.

308. The balances of cash certificates issued but remaining undischarged on the 31st March of each year as per balance sheet for each head office are verified with the actual outstandings in the issue and safe custody registers and all differences reconciled.

309. *Profit and Loss Account.*—The Post Office and Telegraphs being *quasi*-commercial departments, the financial results of their working are reviewed in a Profit and Loss Account. For this purpose account is taken, not only of the receipts and disbursements included in the accounts, but also of other *pro formâ* debits and credits in respect of services rendered without a money equivalent. For instance, some *pro formâ* credits are those on account of the value of messages transmitted free of charge in the Telegraph Department and of free services rendered to Indian States by the Post Office. Some *pro formâ* debits are the cost of the departmental pensions and gratuities which are finally charged in the Civil Department.

310. The expenditure of the Post Office and the Telegraph Department is allocated between Capital and Revenue and a block capital account is separately maintained which shows the total amount invested in each Department. A charge for interest is debited against Revenue and the surplus of receipts over charges shows the net profit earned by each Department.

APPENDIX A.

[Referred to in paragraph 59.]

PART I.

Schedule of demands for grants for expenditure of the Central Government for the year 1922-23 submitted for the vote of the Legislative Assembly.

Number of demand.	Service, Administration or Area to which relates.	Head of Account.	Amount.
			Rs.
	A.—Expenditure from Revenue.		
1	Customs	Customs . . .	64,02,000
2	Taxes on Income	Taxes on Income . .	44,80,000
3	Salt	Salt	1,34,61,000
4	Opium	Opium . . .	1,86,32,000
5	Land Revenue	Land Revenue . .	1,53,000
6	Stamps	Stamps . . .	12,45,000
7	Forests	Forests . . .	7,41,000
8	Railways (inclusive of Working Expenses and payment of Surplus Profits to Railway Companies).	State Railways, Subsidised Companies, Miscellaneous Railway Expenditure.	73,92,79,000
9	Irrigation (including Working Expenses) Navigation, Embankment and Drainage Works.	Works for which capital accounts are kept, Miscellaneous Irrigation Expenditure, Construction of Irrigation, etc., works.	14,32,000
10	Indian Postal and Telegraph Department (including Working Expenses).	Posts and Telegraphs	9,46,63,000
11	Indo-European Telegraph Department (including Working Expenses).	Posts and Telegraphs	16,40,000
12	Interest on miscellaneous obligations	Interest on other obligations.	3,23,63,000

Schedule of demands for grants for expenditure of the Central Government for the year 1922-23 submitted for the vote of the Legislative Assembly—contd.

Number of demand.	Service, Administration or Area to which relates.	Head of Account.	Amount.
	A.—Expenditure from Revenue—contd.		Rs.
13	General Administration . . .	General Administration	76,77,000
14	Audit	Audit . . .	72,19,000
15	Police	Police . . .	8,000
16	Ports and Pilotage . . .	Ports and Pilotage .	12,47,000
17	Survey of India	Scientific Departments .	27,09,000
18	Meteorology	" " .	5,83,000
19	Geological Survey . . .	" " .	2,20,000
20	Botanical Survey	" " .	26,86,000
21	Zoological Survey	" " .	1,41,000
22	Archæology	" " .	14,72,000
23	Mines	" " .	98,000
24	Other Scientific Departments . .	" " .	3,57,000
25	Education	Education . . .	3,01,000
26	Medical Services	Medical . . .	7,79,000
27	Public Health	Public Health . .	9,59,000
28	Agriculture	Agriculture . .	7,73,000
29	Civil Veterinary Services . .	" . .	6,38,000
30	Industries	Industries . . .	1,40,000
31	Aviation	Aviation . . .	37,000
32	Commercial Intelligence . .	Miscellaneous Departments.	3,84,000
33	Census	Miscellaneous Departments.	3,47,000
34A	Emigration—Internal . . .	Miscellaneous Departments.	1,12,000
34B	" External . . .	Miscellaneous Departments.	22,000

Schedule of demands for grants for expenditure of the Central Government for the year 1922-23 submitted for the vote of the Legislative Assembly—contd.

Number of demand.	Service, Administration or Area to which relates.	Head of Account.	Amount.
	A.—Expenditure from Revenue—contd.		Rs.
35	Joint-Stock Companies	Miscellaneous Departments.	1,11,000
36	Miscellaneous Departments	"	12,59,000
37	Currency	Currency	30,36,000
38	Mint	Mint	19,64,000
39	Exchange	Exchange	9,95,50,000
40	Civil Works (under the control of the Public Works Department.)	Civil Works	1,60,10,000
41	Civil Works—Civil	Civil Works	44,000
42	Superannuation Allowances and Pensions.	Superannuation Allowances and Pensions.	20,73,000
43	Stationery and Printing	Stationery and Printing	67,34,000
44	Miscellaneous	Miscellaneous	12,96,000
45	Adjustments with provincial Governments.	Miscellaneous Adjustings between Central and Provincial Governments.	63,29,000
46	North West Frontier	Distributed over respective heads of Account.	1,16,40,000
47	Baluchistan	Distributed over respective heads of Account.	26,81,000
48	Delhi	Distributed over respective heads of Account.	30,41,000
49	Coorg	Distributed over respective heads of Account.	12,62,000
50	Ajmer and Merwara	Distributed over respective heads of Account.	15,11,000
51	Andamans and Nicobar Islands	Distributed over respective heads of Account.	52,39,000
52	Rajputana	Distributed over respective heads of Account.	5,03,000
53	Central India	Distributed over respective heads of Account.	5,73,000
54	Hyderabad	Distributed over respective heads of Account.	1,97,000

Schedule of demands for grants for expenditure of the Central Government for the year 1922-23 submitted for the vote of the Legislative Assembly—contd.

Number of demand.	Service, Administration or Area to which relates.	Head of Account.	Amount.
	A.—Expenditure from Revenue—contd.		Rs.
55	Bangalore	Distributed over respective heads of Account.	13,79,000
56	Expenditure in England—Secretary of State for India.	Distributed over respective heads of Account.	33,26,000
57	Expenditure in England—High Commissioner for India.	Distributed over respective heads of Account.	64,06,000
Non-voted	Interest on Debt and Sinking Funds	Interest on Debt and Sinking Funds.	...
Non-voted	Ecclesiastical	Ecclesiastical . . .	...
Non-voted	Political	Political . . .	...
Non-voted	Territorial and Political Pensions .	Territorial and Political Pensions.	...
	TOTAL .	...	1,11,95,17,000
	B.—Expenditure charged to Capital.		
58	Railways	Construction of State Railways.	29,97,53,000
59	Irrigation	Construction of Irrigation Works.	2,69,000
60	Telegraphs	Capital Outlay on Telegraphs.	1,45,00,000
61	New Capital at Delhi . . .	Initial Expenditure on New Capital at Delhi.	1,96,65,000
	TOTAL .	...	33,41,87,000
	C.—Disbursements of Loans and Advances.		
62	Interest free advances . . .	...	12,06,37,000
63	Loans and advances bearing interest .	...	6,73,59,000
	TOTAL .	...	18,79,96,000
	GRAND TOTAL .	...	1,64,17,00,000

PART II.

Details of Demand No. 46 by Major Heads.

NORTH-WEST FRONTIER PROVINCE.

Rs. 1,16,40,000.

—	Actuals 1920-21.	Budget, 1921-22.		Revised, 1921-22.		Budget, 1922-23.	
		Non-Voted.	Voted.	Non-Voted.	Voted.	Non-Voted.	Voted.
Customs	450	1,000	...	1,000	...	1,000	...
Taxes on Income	18,324	...	19,000	...	21,000	...	46,000
Land Revenue	3,21,658	19,000	3,79,000	18,000	4,67,000	18,000	5,08,000
Excise	38,558	...	43,000	...	41,000	...	42,000
Stamps	31,956	...	32,000	...	32,000	...	32,000
Forest	4,54,197	16,000	6,82,000	16,000	6,61,000	19,000	7,31,000
Registration	23,097	...	24,000	...	24,000	...	24,000
Irrigation Revenue Account Interest.	9,25,348	9,85,000	...	9,39,000	...	9,51,000	...
Irrigation Working Expenses	9,73,188	...	10,91,000	...	10,91,000	...	10,86,000

North-West Frontier Province—contd.

—	Actuals 1920-21.	Budget, 1921-22.		Revised, 1921-22.		Budget, 1922-23.	
		Non-Voted.	Voted.	Non-Voted.	Voted.	Non-Voted.	Voted.
Irrigation Expenditure—Civil	50,555	...	43,000	...	90,000	...	76,000
Irrigation Expenditure—Public Works.	48,793	...	49,000	...			
General Administration	15,91,701	3,34,000	13,98,000	4,12,000	13,15,000	4,01,000	15,37,000
Administration of Justice	3,93,766	79,000	3,13,000	1,34,000	2,97,000	1,29,000	3,29,000
Jails and Convict Settlements	4,13,972	...	5,15,000	...	6,05,000	5,000	5,53,000
Police	44,33,712	3,39,000	43,75,000	3,88,000	49,22,000	4,41,000	51,28,000
Ecclesiastical	65,586	1,02,000	...	83,000	...	97,000	...
Political	45,90,379	56,58,000	...	49,08,000	...	1,18,51,000	...
Scientific Departments	3,981	...	7,000	...	5,000	...	7,000
Education	9,99,057	65,000	11,44,000	53,000	11,32,000	68,000	12,37,000
Medical	2,42,293	1,05,000	2,94,000	1,02,000	2,79,000	1,09,000	2,96,000
Public Health	1,35,898	26,000	2,04,000	25,000	1,03,000	31,000	2,01,000
Agriculture	96,590	...	1,48,000	...	1,14,000	...	1,29,000
Miscellaneous Departments	30,612	...	34,000	...	45,000	...	24,000
Currency	46,352	...	2,000	...	5,000	...	3,000

Civil Works—Civil	2,14,303	...	1,09,000	...	95,000	...	1,12,000
Civil Public Works	29,33,063	...	28,00,000	...	24,05,000	...	31,02,000
Famine Relief	...	...	20,000	...	20,000	...	20,000
Territorial and Political Pensions	48,582	...	...	60,000	...	58,000	...
Superannuation	2,39,637	...	2,66,000	...	2,94,000	...	2,95,000
Stationery and Printing	1,39,218	...	1,86,000	...	1,54,000	...	1,88,000
Miscellaneous	4,44,224	...	1,28,000	...	1,10,000	...	2,12,000
TOTAL	1,99,49,050	77,29,000	1,43,05,000	71,39,000	1,43,27,000	1,41,79,000	1,59,18,000
Deduct—							
Charges shown in demands:—							
No. 9—Irrigation, etc.	10,72,536	...	11,83,000	...	11,81,000	...	11,62,000
No. 33—Census	21,623	...	25,600	...	36,000	...	14,000
No. 40—Civil Works—P. W.	29,33,063	...	28,00,000	...	24,05,000	...	31,02,000
Total deductions	40,27,222	...	40,08,600	...	36,22,000	...	42,78,000
Net Total of this Demand	1,59,21,828	77,29,000	1,02,96,400	71,39,000	1,07,05,000	1,41,79,000	1,16,40,000

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